UTHUKELA
UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY

uThukela District Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Legal form of entity	District Municipality
Mayor	Mrs DCP Mazibuko
Duty Mayor	Mr ML Shelembe
	Mr TJMB Jeebodh (Speaker)
Councillors	MG Hlubi
	NW Sibiya
	AS Mazibuko
	MA Mkhize
	AM Maseti
	D Banda
	NM Hadebe
	SB Sibisi
	MJ Ntshaba
	VR Mlotshwa
	N Hlomuke
	M Mlotshwa
	M Zwane
	B Mazibuko
	T Cele
	B Madonsela
	T Xaba
	M Mbatha
	N Zikalala
	M Ngubane
	D Magubane
	S Chonco
	B Mabizela
	S Sikhakhane
	M Hadebe
	SJ Sithole
	SA Jiyane
	T Shelembe
Grading of local authority	4
Accounting Officer	Mr JN Madondo (Acting Municipal Manager)
Chief Finance Officer (CFO)	Mr JN Madondo
Registered office	36 Lyell Street Ladysmith 3370 3370
Business address	36 Lyell Street Ladysmith 3370
Postal address	PO Box 116 Ladysmith 3370
Bankers	FNB - Ladysmith
Auditors	Auditor General (SA)

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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

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

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Report

It is my pleasure to present the financial statements for the financial year end 30 June 2011.

The Municipality has undergone various adaptation challenges which were posed by a number of changes in the environment within which it operates, legislative reforms in particular changes in financial reporting.

Council has however risen above these difficult times and I can proudly say that Council did everything possible to comply with the relevant legislation imposed and is now fully GRAP/GAMAP compliant.

Financial statements highlights that Council is still faced with going concern challenges which results inter alia in cash flow difficulties. The increase in the “debtor’s book” impacts negatively to our cash position. Intervention like involvement of credit bureaus to clean our debtors book is aimed at inter alia arrive at realistic billable and collectable debtors.

The situation is aggravated by costs for rendering the service which is not collectable, due to factors like high indigency rate, unemployment, vandalism, ageing infrastructure resulting in constant pipe burst etc.

Despite all odds, we remain committed as the Municipality to render quality and sustainable service to our communities and to address our financial position through intensive application of the turnaround strategy in order to be better positioned to deliver sustainable services.

It is our belief that with reliable infrastructure, economic growth and development will be achieved.

We are striving within available means to stretch each rand as far as possible, we shall be striving to improve, explore new opportunities and tap every opportunity for the betterment of our District.

Lastly, I would like to thank our Council and staff for their support during this challenging financial year and hope that our working relationship will grow from strength to strength.

Mr JN Madondo
Acting Municipal Manager

Statement of Financial Position

	Note(s)	2011 R	2010 R
Assets			
Current Assets			
Inventories	3	4 219 413	3 931 983
Trade and other receivables from exchange transactions	4	1 499 120	1 989 061
Other receivables from non-exchange transactions	5	645 553	545 927
Prepayments		730 027	1 237 686
Consumer debtors	6	139 994 409	35 388 149
Cash and cash equivalents	7	213 040	913 798
		147 301 562	**44 006 604**
Non-Current Assets			
Property, plant and equipment	8	701 304 712	664 982 617
Intangible assets	9	50 875	52 708
		701 355 587	**665 035 325**
Total Assets		**848 657 149**	**709 041 929**
Liabilities			
Current Liabilities			
Other financial liabilities	12	2 102 917	2 753 652
Finance lease obligation	13	466 009	701 026
Operating lease liability	10	49 897	102 451
Trade and other payables from exchange transactions	15	130 246 315	127 842 616
VAT payable	16	15 299 420	12 552 364
Consumer deposits	17	7 672 358	6 289 187
Retirement benefit obligation	11	3 721 065	3 395 286
Unspent conditional grants and receipts	14	25 679 534	30 203 847
Bank overdraft	7	8 174 913	3 874 114
		193 412 428	**187 714 543**
Non-Current Liabilities			
Other financial liabilities	12	12 905 704	14 987 075
Finance lease obligation	13	554 208	1 023 376
		13 459 912	**16 010 451**
Total Liabilities		**206 872 340**	**203 724 994**
Net Assets		**641 784 809**	**505 316 935**
Net Assets			
Accumulated surplus		641 784 809	505 316 935

Statement of Financial Performance

	Note(s)	2011 R	2010 R
Revenue			
Property rates	18	446 938	193 663
Service charges	19	108 313 676	99 957 682
Interest received (trading)		21 260 353	17 341 584
Fines		700	2 193
Government grants & subsidies	20	314 296 727	278 397 668
Other income		3 134 035	2 422 947
Total Revenue		**447 452 429**	**398 315 737**
Expenditure			
Employee cost	22	97 327 115	87 107 297
Remuneration of councillors	23	3 719 455	3 918 862
Depreciation and amortisation	25	26 346 837	24 566 293
Impairment loss/ Reversal of impairments		5 239 710	-
Finance costs	26	6 573 074	4 515 059
Debt impairment	24	(27 930 981)	80 758 598
Collection costs		1 167 651	376 532
Repairs and maintenance		23 238 368	18 799 738
Bulk purchases	27	2 918 787	2 485 091
Loss on disposal of assets		-	218 104
General Expenses	21	165 691 481	168 323 819
Total Expenditure		**304 291 497**	**391 069 393**
Loss on disposal of assets and liabilities		149 382	218 104
Surplus for the year		**143 011 550**	**7 028 240**

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2009 (previously stated)	**491 278 288**	**491 278 288**
Changes in net assets		
Prior year adjustment	7 010 407	7 010 407
Net income (losses) recognised directly in net assets	7 010 407	7 010 407
Surplus for the year	7 028 240	7 028 240
Total recognised income and expenses for the year	14 038 647	14 038 647
Total changes	14 038 647	14 038 647
Balance at 01 July 2010 (restated)	**505 316 934**	**505 316 934**
Changes in net assets		
Prior year adjustment	(6 543 675)	(6 543 675)
Net income (losses) recognised directly in net assets	(6 543 675)	(6 543 675)
Surplus for the year	143 011 550	143 011 550
Total recognised income and expenses for the year	136 467 875	136 467 875
Total changes	136 467 875	136 467 875
Balance at 30 June 2011	**641 784 809**	**641 784 809**

Note(s)

Cash Flow Statement

	Note(s)	2011 R	2010 R
Cash flows from operating activities			
Receipts			
Sale of goods and services		52 898 750	42 166 384
Grants		314 296 727	286 973 638
Other receipts		3 971 988	17 017 667
		371 167 465	346 157 689
Payments			
Employee costs		(100 773 345)	(91 000 049)
Suppliers		(190 786 445)	(191 393 444)
Finance costs		(6 573 074)	(4 489 275)
		(298 132 864)	(286 882 768)
Net cash flows from operating activities	28	**73 034 601**	**59 274 921**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(68 130 298)	(61 361 890)
Proceeds from sale of property, plant and equipment	8	73 987	-
Non-cash item		(6 543 556)	-
Net cash flows from investing activities		**(74 599 867)**	**(61 361 890)**
Cash flows from financing activities			
Repayment of other financial liabilities		(2 732 106)	(3 206 648)
Finance lease payments		(704 185)	(870 468)
Net cash flows from financing activities		**(3 436 291)**	**(4 077 116)**
Net increase/(decrease) in cash and cash equivalents		**(5 001 557)**	**(6 164 085)**
Cash and cash equivalents at the beginning of the year		(2 960 316)	3 203 769
Cash and cash equivalents at the end of the year	7	**(7 961 873)**	**(2 960 316)**

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

Loans and receivables

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply and demand, together with economic factors such as exchange rates, inflation and interest rates.

Provisions

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

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of infrastructure and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

Post retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 11.

Effective interest rate

The municipality used the most relevant contractual risk rate applicable to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for impairment on trade and other receivables

On trade and other receivables 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 estimated future cash flows based on the historical payment trend.

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.

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that 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.

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

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

Item	**Average useful life**
Buildings	
• Office buildings	30

1.2 Property, plant and equipment (continued)

Plant and equipment	
• Graders	5
• Tractors	5
• Mechanical horses	5
• Compressors	2
• Lawnmowers	5
• Laboratory equipment	5
• Radio equipment	5
• Telecommunication equipment	5
• Irrigation systems	10
• Lathes & Milling equipment	5
• Tippers	5
• Tools	5
• General	5
Water networks	
• Meters	10
• Dams	80
• Supply/reticulation	20
• Reservoirs and tanks	30
• Water pumps	5
• Mains	30
• Rights	30
• Boreholes	15
Wastewater networks	
• Sewers	30
• Outfall sewers	40
• Purification works	30
• Sewerage pumps	5
• Slidge machines	15
Office equipment	
• Computer equipment	3
• Office machines	3-5
• Air conditioners	3
• Furniture and fittings	7
• Emergency equipment	5
• Security equipment	5
Other equipment	
• Motor vehicles	5
• Truck/bakkies	5

The residual value, and the useful life and depreciation method of each asset are reviewed annually. 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.

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

1.2 Property, plant and equipment (continued)

Transitional provision

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

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 8. The transitional provision expires on 30 June 2011.

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

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

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

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

1.3 Site restoration and dismantling cost

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

1.4 Investment property

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

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

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

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

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

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

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

1.4 Investment property (continued)

Fair value

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

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

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

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

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

Transitional provision

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

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 30 June 2011.

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

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.5 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.

Accounting Policies

1.5 Intangible assets (continued)

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

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

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:

Item	Useful life
Water rights	30 years

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

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

1.5 Intangible assets (continued)

Transitional provision

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

According to the transitional provision, the municipality is not required to measure 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 9. The transitional provision expires on 30 June 2011.

In accordance with the transitional provision as per Directive 2 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 9.

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

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

The exemption from applying the measurement requirements of the Standard of GRAP on 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.

1.6 Financial instruments

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

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

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

1.6 Financial instruments (continued)

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

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

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

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

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

1.6 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Non current investments	Financial asset measured at amortised cost
Other	Financial asset measured at fair value

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

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Other	Financial liability measured at amortised cost
Other receivables	Financial liability measured at amortised cost
Other financial liability	Financial liability measured at fair value

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.6 Financial instruments (continued)

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

Financial assets measured at cost:

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

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.6 Financial instruments (continued)

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

Presentation

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

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

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

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

1.7 Leases

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

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 or the incremental borrowing rate of the municipality.

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 - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

Operating leases - lessee

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

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

Inventories are measured at the lower of cost and current replacement cost where they 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.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

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

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2011.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.9 Non-current assets held for sale and disposal groups

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

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

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

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

1.10 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.

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.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- 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 annually 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.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

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.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess annually 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 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.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

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.

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

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:

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

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

- 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 annually 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.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

1.11 Impairment of non-cash-generating assets (continued)

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.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

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

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

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

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

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

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

1.12 Employee benefits (continued)

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

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

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

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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 municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.12 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Provisions and contingencies

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

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.

1.13 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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 30.

1.13 Provisions and contingencies (continued)

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2011. The change in accounting policy is 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 2011 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 Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.14 Revenue from exchange transactions

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

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

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.

1.14 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

1.15 Revenue from non-exchange transactions

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

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.

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.

1.15 Revenue from non-exchange transactions (continued)

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Fines

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

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

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

Bequests

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

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.15 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind are not recognised.

1.16 Investment income

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

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.10 and 1.11. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; 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.

1.20 Fruitless and wasteful expenditure

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

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

Accounting Policies

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 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.

1.23 Presentation of currency

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

1.24 Offsetting

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

1.25 Investments

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

1.26 Conditional grants and receipts

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

1.27 Budget information

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

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 39&43.

	2011 R	2010 R

2. New standards and interpretations

GRAP 23: Revenue from Non-exchange Transactions

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

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

The impact of the standard is not material.

GRAP 103: Heritage Assets

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:

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

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

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An 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.

An 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, an entity estimates the recoverable service amount of that asset.

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

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

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an 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, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

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

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

An 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, an municipality estimates the recoverable amount of that asset.

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

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

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

The impact of the standard is not material.

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

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

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

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

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

GRAP 25: Employee benefits

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

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

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

GRAP25 defines, amongst others, the following:
- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:
- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:
- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

2. New standards and interpretations (continued)

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

GRAP 104: Financial Instruments

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

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

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

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

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

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

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

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

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Notes to the Annual Financial Statements

	2011 R	2010 R

3. Inventories

Promotional items	4 345	5 799
Chemicals	920 431	625 788
Water stock	73 843	70 747
Stores	3 220 794	3 229 649
	4 219 413	**3 931 983**

Carrying value of inventories carried at fair value less costs to sell	4 219 413	3 931 983

Inventory pledged as security

Inventory was not pledged as security to secure loans or an overdraft facilities.

4. Trade and other receivables from exchange transactions

Prepayments (if immaterial)	-	253 110
Deposits	1 446 206	1 197 179
Sundry debtors	52 914	538 772
	1 499 120	**1 989 061**

Fair value of trade and other receivables

Trade and other receivables	1 499 120	1 989 061

Trade and other receivables impaired

As of 30 June 2011, trade and other receivables of R 9 542 214 (2010: R 10 450 164) were impaired and provided for.

5. Other receivables from non-exchange transactions

Sundry debtors	93 594	70 462
Stock suspense	29 044	29 044
Trust fund	10 166	166
Bank suspense	459 817	47 381
Retentions claims	52 932	398 874
	645 553	**545 927**

Fair value of other receivables from non-exchange transactions

Other receivables from non-exchange transactions	645 553	545 927

Notes to the Annual Financial Statements

	2011 R	2010 R

6. Consumer debtors

	2011 R	2010 R
Gross balances		
Rates	514 251	155 079
Water	358 429 746	281 376 194
	358 943 997	**281 531 273**
Less: Provision for debt impairment		
Rates	(513 726)	(155 079)
Water	(218 435 862)	(245 988 045)
	(218 949 588)	**(246 143 124)**
Net balance		
Rates	525	-
Water	139 993 884	35 388 149
	139 994 409	**35 388 149**
Rates		
121 - 365 days	525	-
Water and sanitation		
Current (0 -30 days)	5 676 435	5 745 575
31 - 60 days	3 633 621	2 295 467
61 - 90 days	3 721 916	1 945 662
91 - 120 days	3 245 637	1 513 500
150 + days	123 716 275	23 887 945
	139 993 884	**35 388 149**

Summary of debtors by customer classification

	2011 R	2010 R
Consumers		
Current (0 -30 days)	13 328 442	10 385 335
31 - 60 days	9 324 791	7 736 587
61 - 90 days	9 431 819	7 302 565
91 - 120 days	8 873 494	6 827 778
150 + days	308 977 108	243 067 014
	349 935 654	275 319 279
Less: Provision for debt impairment	(214 047 737)	(243 068 305)
	135 887 917	**32 250 974**
Industrial/ commercial		
Current (0 -30 days)	631 197	591 480
31 - 60 days	243 856	259 654
61 - 90 days	265 046	341 374
91 - 120 days	191 253	227 511
150 + days	4 978 818	3 062 254
	6 310 170	4 482 273
Less: Provision for debt impairment	(4 395 340)	(3 074 820)
	1 914 830	**1 407 453**
National and provincial government		
Current (0 -30 days)	194 690	12 821
31 - 60 days	85 823	12 215
61 - 90 days	225 403	10 922
91 - 120 days	77 236	9 601
150 + days	2 115 020	411 560

Notes to the Annual Financial Statements

	2011 R	2010 R

6. Consumer debtors (continued)

	2 698 172	457 119
Less: Provision for debt impairment	(506 511)	-
	2 191 661	**457 119**

Total

Current (0 -30 days)	14 154 329	10 989 636
31 - 60 days	9 654 470	8 008 456
61 - 90 days	9 922 268	7 654 861
91 - 120 days	9 141 984	7 064 891
150 + days	316 070 946	247 813 429
	358 943 997	281 531 273
Less: Provision for debt impairment	(218 949 588)	(246 143 124)
	139 994 409	**35 388 149**

Less: Provision for debt impairment

Current (0 -30 days)	(8 477 894)	(5 244 061)
31 - 60 days	(6 020 850)	(5 712 989)
61 - 90 days	(6 200 351)	(5 709 198)
91 - 120 days	(5 896 346)	(5 551 391)
150 + days	(192 354 147)	(223 925 485)
	(218 949 588)	**(246 143 124)**

Reconciliation of debt impairment provision

Balance at beginning of the year	(246 143 124)	(167 378 638)
Contributions to provision	-	(78 764 486)
Debt impairment written off against provision	152 224	-
Reversal of provision	27 041 312	-
	(218 949 588)	**(246 143 124)**

Fair value of consumer debtors

Consumer debtors	139 994 409	35 388 149

Consumer debtors impaired

The amount of the provision was R 218 949 588 as of 30 June 2011 (2010: R 246 143 124).

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7 312	7 612
Short-term deposits	205 728	906 186
Bank overdraft	(8 174 913)	(3 874 114)
	(7 961 873)	**(2 960 316)**

Current assets	213 040	913 798
Current liabilities	(8 174 913)	(3 874 114)
	(7 961 873)	**(2 960 316)**

7. Cash and cash equivalents (continued)

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 (Ladysmith) Account no- 4048800058	-	157 254	1 744 383	(456 429)	157 254	1 493 934
ABSA Bank (Ladysmith) Account no - 4062520058	-	88 072	603 487	(366 334)	88 072	603 487
FNB (Ladysmith) Account no - 62252306280	630 960	493 840	-	184 848	493 840	-
FNB (Ladysmith) Account no - 62253072385	(4 792 574)	(4 613 280)	-	(7 536 997)	(4 613 280)	-
Cash on hand	7 311	7 612	7 700	7 311	7 612	7 700
FNB (Ladysmith) Account no - 62283176644	205 728	-	-	205 728	-	-
Total	**(3 948 575)**	**(3 866 502)**	**2 355 570**	**(7 961 873)**	**(3 866 502)**	**2 105 121**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Acc depr and impairment	Carrying value	Cost / Valuation	Acc depr and impairment	Carrying value
Land	1 037 872	-	1 037 872	1 037 872	-	1 037 872
Buildings	482 857	(241 406)	241 451	482 857	(226 150)	256 707
Infrastructure	872 234 383	(182 050 814)	690 183 569	807 494 518	(154 871 976)	652 622 542
Other property, plant and equipment	24 629 589	(16 463 476)	8 166 113	22 375 740	(13 680 607)	8 695 133
Leased assets	4 246 030	(2 570 323)	1 675 707	4 361 760	(1 991 397)	2 370 363
Total	**902 630 731**	**(201 326 019)**	**701 304 712**	**835 752 747**	**(170 770 130)**	**664 982 617**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Assets under construction	Disposals	Depreciation	Impairment loss	Total
Land	1 037 872	-	-	-	-	-	1 037 872
Buildings	256 707	-	-	-	(15 256)	-	241 451
Infrastructure	652 622 542	497 196	64 368 395	(80 596)	(23 834 972)	(3 388 996)	690 183 569
Other property, plant and equipment	8 695 133	3 264 707	-	(110 368)	(1 832 645)	(1 850 714)	8 166 113
Leased assets	2 370 363	-	-	(32 405)	(662 251)	-	1 675 707
	664 982 617	**3 761 903**	**64 368 395**	**(223 369)**	**(26 345 124)**	**(5 239 710)**	**701 304 712**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Assets under construction	Disposals	Transfers	Depreciation	Total
Land	1 037 872	-	-	-	-	-	1 037 872
Buildings	271 963	-	-	-	-	(15 256)	256 707
Infrastructure	615 987 737	631 438	60 409 781	-	(800 000)	(23 606 414)	652 622 542
Other property, plant and equipment	9 192 125	320 671	-	(58 744)	800 000	(1 558 919)	8 695 133
Leased assets	3 047 186	-	-	(159 360)	-	(517 463)	2 370 363
	629 536 883	**952 109**	**60 409 781**	**(218 104)**	**-**	**(25 698 052)**	**664 982 617**

Notes to the Annual Financial Statements

	2011 R	2010 R

8. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Motor vehicles	4 246 030	4 361 760

Revaluations

Property, plant and equipment that had being previously recorded as nil value have been revalued. Further, additional property, plant and equipment was identified during the asset verification process. The cost and accumulated depreciation for these items of property, plant and equipment have being restated as at the 01 July 2009.

The carrying value of the revalued assets under the cost model would have been:

Infrastructure	-	2 029 956
Other property, plant and equipment	-	4 515 841

Other information

Property, plant and equipment fully depreciated and still in use (Cost)

Property, plant and equipment	3 230 944	-

Carrying value of idle property, plant and equipment. Fully depreciated property, plant and equipment still in use. Property, plant and equipment retired from active use, but not classified as held for sale. Fair value of property, plant and equipment carried at cost.

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.

9. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Water rights	55 000	(4 125)	50 875	55 000	(2 292)	52 708

Reconciliation of intangible assets - 2011

	Opening balance	**Amortisation**	**Total**
Water rights	52 708	(1 833)	50 875

Reconciliation of intangible assets - 2010

	Opening balance	**Amortisation**	**Total**
Water rights	54 542	(1 834)	52 708

10. Operating lease asset (accrual)

The property occupied by the municipality is leased from third party. These leases are operating lease as defined. The operating lease liability is the difference between actual payments made, in terms of the lease agreement, and the smoothing of the lease payment.

Notes to the Annual Financial Statements

	2011 R	2010 R

11. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality has engaged Alexander Forbes Health (Pty) Ltd to conduct the 30 June 2011 actuarial valuation of the municipality's post retirement medical aid benefit. It is the policy of the municipality to provide retirement benefits to 19 employees. The results and assumptions of the valuation is noted below.

The amounts recognised in the statement of financial position are as follows:

	2011 R	2010 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3 721 065)	(3 395 286)

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

	2011 R	2010 R
Opening balance	3 395 286	2 798 566
Net expense recognised in the statement of financial performance	325 779	596 720
Closing balance	**3 721 065**	**3 395 286**

Net expense recognised in the statement of financial performance

	2011 R	2010 R
Current service cost	258 286	242 815
Interest cost	308 593	261 018
Actuarial (gains) losses	(123 628)	189 982
Expected employer benefit payments	(117 472)	(97 095)
Total included in employee related costs	**325 779**	**596 720**

Notes to the Annual Financial Statements

	2011 R	2010 R

11. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Expected retirement age	65	65
Discount rates used	8.75 %	9.25 %
Health care cost inflation	7.75 %	7.75 %
Salary inflation	7.25 %	7.25 %

Assumed a 6.80% increase in salaries and maximum subsidies with effect from 1 July 2011.

The discount rate is based on current bond yields of appropriate terms gross of tax as required by IAS 19.

The underlying future rate of of consumer price index inflation (CPI Inflation) is assumed to be 5.75% per annum.

Health care cost inflation, it is assumed the current contribution table(s) of the medical scheme(s) would continue to apply in the future and with exceed CPI inflation by an average of 2.00% per annum.

Assumed that 0% of current in-service members eligible for a retirement subsidy would discontinue medical scheme membership upon reaching retirement with uThukela DM.

Assumed that 90% of current in-service members would be married at retirement, unless the member is older than the expected retirement age and marital status have been provided at the valuation date.

Assumed mortality rates:

During employment	-	SA 85-90 (light) ultimate table
Post-employment	-	PA(90) ultimate table rated down 2 years plus 1% improvement per annum (from a base year of 2006).

Assumed withdrawal are set out below:

Age	**Annual rate of withdrawal**
20	15%
25	10%
30	7%
35	4%
40	2%
45+	0%

12. Other financial liabilities

	2011 R	2010 R
Held at amortised cost		
DBSA	15 008 621	17 740 727
Loans bear an interest rate between 7.17% and 15.25% per annum and are repayable over periods between five and twenty years. The loans compromises of 7 Loans approved by the Development Bank of South Africa amounting to R36 511 976.		

During the financial year, one loan had being settled.

	2011 R	2010 R
Non-current liabilities		
At amortised cost	12 905 704	14 987 075
Current liabilities		
At amortised cost	2 102 917	2 753 652
	15 008 621	**17 740 727**

Other financial liabilities at fair value through surplus or deficit

Financial liabilities at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

Notes to the Annual Financial Statements

	2011 R	2010 R

13. Finance lease obligation

	2011 R	2010 R
Minimum lease payments due		
- within one year	529 684	821 889
- in second to fifth year inclusive	581 050	1 126 060
	1 110 734	1 947 949
less: future finance charges	(90 517)	(223 547)
Present value of minimum lease payments	**1 020 217**	**1 724 402**

	2011 R	2010 R
Present value of minimum lease payments due		
- within one year	466 009	701 026
- in second to fifth year inclusive	554 208	1 023 376
	1 020 217	**1 724 402**

	2011 R	2010 R
Non-current liabilities	554 208	1 023 376
Current liabilities	466 009	701 026
	1 020 217	**1 724 402**

It is municipality policy to leases motor vehicles under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 8% (2010: 10%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2011 R	2010 R
Unspent conditional grants and receipts		
MIG Grants	5 155 732	15 139 506
KZN Projects	15 391 073	11 871 484
DWAF	3 817 098	2 702 188
Sport and recreation	176 886	402 426
MSIG	333 745	88 243
Other government grants and subsidies	805 000	-
	25 679 534	**30 203 847**

Movement during the year

	2011 R	2010 R
Balance at the beginning of the year	30 703 848	48 889 563
Additions during the year	111 076 603	124 651 072
Income recognition during the year	(116 100 917)	(143 336 788)
	25 679 534	**30 203 847**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 20 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

	2011 R	2010 R

15. Trade and other payables from exchange transactions

Trade payables	88 784 730	10 862 240
DWAF	17 766 151	13 198 528
Loan - Endumeni	8 000	8 000
Trust funds	2 719 155	2 834 273
Retentions	7 428 817	7 428 817
Other Creditors	7 412 670	68 087 283
DBSA accrued interest	414 669	491 039
MIG creditors	-	12 496 103
Provision for leave	14 803 110	12 436 333
Discounting on Accounts Payables	(9 090 987)	-
	130 246 315	**127 842 616**

16. VAT payable

Tax refunds payables	15 299 420	12 552 364

17. Consumer deposits

Water	7 672 358	6 289 187

18. Property rates

Rates received

Small holdings and farms	446 938	193 663

Valuations

Commercial	25 000 000	25 000 000
Small holdings and farms	47 325 000	47 325 000
	72 325 000	**72 325 000**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009.

A general rate of R 0,003 Farming; R 0,007 Nature conversation and R 0,022 Commercial (2010: R 0,003 Farming; R 0,006 natural reserves; and R 0,020 Commercial) is applied to property valuations to determine assessment rates. Rebates of 30% (2010: 30%) are granted to commercial property owners.

Rates are levied on an annual basis with the final date for payment being 30 June 2011. Interest at prime plus 1% per annum is levied on rates outstanding two months after due date.

19. Service charges

Sale of water	96 715 118	83 453 175
Sewerage and sanitation charges	11 598 558	16 504 507
	108 313 676	**99 957 682**

20. Government grants and subsidies

Equitable share	198 195 810	159 193 475
MIG Grant	101 317 775	98 112 055
DWAF	10 355 290	14 521 039
KZN projects	3 697 813	4 465 437
Sport and recreation	225 540	1 313 715
MSIG	504 499	791 947
	314 296 727	**278 397 668**

Notes to the Annual Financial Statements

	2011 R	2010 R

20. Government grants and subsidies (continued)

Equitable Share

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

MIG grant

	2011 R	2010 R
Balance unspent at beginning of year	15 139 506	20 929 157
Current-year receipts	91 334 000	117 183 000
Conditions met - transferred to revenue	(101 317 774)	(122 972 651)
	5 155 732	**15 139 506**

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

KZN Projects

	2011 R	2010 R
Balance unspent at beginning of year	11 871 484	12 661 048
Current-year receipts	6 717 403	3 675 872
Conditions met - transferred to revenue	(3 697 814)	(4 465 436)
Prior year adjustment	500 000	-
	15 391 073	**11 871 484**

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

DWAF

	2011 R	2010 R
Balance unspent at beginning of year	2 702 188	13 738 027
Current-year receipts	11 470 200	2 757 200
Conditions met - transferred to revenue	(10 355 290)	(13 793 039)
	3 817 098	**2 702 188**

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

Sport and recreations

	2011 R	2010 R
Balance unspent at beginning of year	402 426	1 416 138
Current-year receipts	-	300 000
Conditions met - transferred to revenue	(225 540)	(1 313 712)
	176 886	**402 426**

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

MSIG

	2011 R	2010 R
Balance unspent at beginning of year	88 243	145 193
Current-year receipts	750 000	735 000
Conditions met - transferred to revenue	(504 498)	(791 950)
	333 745	**88 243**

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

Other government grant and subsidies

	2011 R	2010 R
Current-year receipts	805 000	-

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

Notes to the Annual Financial Statements

21. General expenses

	2011 R	2010 R
Advertising	87 695	567 754
Assessment rates & municipal charges	864	19 561
Auditors remuneration	1 662 376	1 329 738
Bank charges	407 484	465 875
Cleaning	266 371	301 761
Computer expenses	4 584 401	421 748
Consulting and professional fees	1 361 779	590 857
Consumables	33 970	26 437
Entertainment	429 766	446 417
Hire	6 075 099	6 401 874
Insurance	802 020	1 300 801
Conferences and seminars	47 988	43 437
Lease rentals on operating lease	3 785 858	2 783 645
Magazines, books and periodicals	9 474	4 171
Motor vehicle expenses	202 977	168 429
Fuel and oil	3 079 533	2 964 353
Postage and courier	4 628	13 458
Printing and stationery	1 052 155	895 765
Promotions	-	1 024
Protective clothing	363 026	425 355
Security (Guarding of municipal property)	436 545	433 159
Software expenses	-	71 481
Subscriptions and membership fees	548 041	2 387
Telephone and fax	2 549 775	2 591 388
Training	22 370	69 609
Assets expensed	59 444	890 164
Electricity	29 527 813	22 808 368
Water	338 894	537 819
Water tankering	30 146 024	26 218 330
Audit committee	57 160	38 757
Government grant expenditure	51 513 577	57 224 410
Chemicals	10 368 093	12 262 641
Other expenses	15 866 281	26 220 950
	165 691 481	**168 541 923**

Notes to the Annual Financial Statements

	2011 R	2010 R

22. Employee related costs

Basic	84 192 059	75 819 880
Medical aid - company contributions	2 518 426	2 290 911
UIF	578 697	524 863
WCA	-	763
SDL	797 057	697 227
Leave pay provision charge	2 366 777	1 616 767
Post-employment benefits - Pension - Defined contribution plan	325 779	596 720
Travel, motor car, accommodation, subsistence and other allowances	2 055 486	570 502
	92 834 281	**82 117 633**

Salaries, allowances and benefits are in accordance with the framework envisaged in section 219 of the Constitution.

Remuneration of municipal manager

Annual Remuneration	894 326	861 149
Car Allowance	247 708	242 525
Contributions to UIF, Medical and Pension Funds	27 405	23 506
Travel and subsistence	-	23 554
	1 169 439	**1 150 734**

Remuneration of chief finance officer

Annual Remuneration	649 105	615 020
Car Allowance	115 797	114 584
Contributions to UIF, Medical and Pension Funds	-	8 849
Entertainment	60 446	60 540
Housing subsidy	28 347	26 394
Travel and subsistence	12 820	14 379
	866 515	**839 766**

Manager: Technical services

Annual Remuneration	-	270 585
Car Allowance	-	115 660
Contributions to UIF, Medical and Pension Funds	-	12 773
Other	-	108 250
	-	**507 268**

Post vacant from the February 2011. The Manager: Health, Environmental services and WSA is currently overseeing this department.

Manager: Corporate services

Annual Remuneration	587 459	557 498
Car Allowance	157 960	154 663
Contributions to UIF, Medical and Pension Funds	-	61 389
Housing subsidy	6 067	5 941
Other	-	16 365
	751 486	**795 856**

Manager: Health services, Environmental services and WSA

Annual Remuneration	618 899	555 225
Car Allowance	213 551	209 094
Contributions to UIF, Medical and Pension Funds	-	8 520
Housing subsidy	7 643	7 484
Travel and subsistence	34 676	38 511
	874 769	**818 834**

	2011 R	2010 R

22. Employee related costs (continued)

Manager: Water services

	2011 R	2010 R
Annual Remuneration	632 375	590 525
Car Allowance	198 250	194 118
Contributions to UIF, Medical and Pension Funds	-	18 494
Travel and subsistence	-	64 128
Other	-	9 941
	830 625	**877 206**

23. Remuneration of councillors

	2011 R	2010 R
Mayor	421 074	437 999
Deputy Mayor	452 041	481 022
Mayoral Committee Members	710 040	748 808
Speaker	452 877	478 486
Councillors	1 683 423	1 772 547
	3 719 455	**3 918 862**

In-kind benefits

The Mayor, Deputy 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 Mayor has use of a Council owned vehicle for official duties.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has full-time bodyguards .

24. Debt impairment

	2011 R	2010 R
Contributions to debt impairment provision	(27 931 262)	80 757 905
Debts impaired	281	693
	(27 930 981)	**80 758 598**

The municipality had engage a credit bureau to assess the credit rating of the consumer debtors. The scope of the project included performing itc searches on consumers, tracing debtors and updated the database with consumers contact details. Contact details included the consumer's residential address, employer's address and the consumers home, work and cellphone numbers. Majority of these debtors were initially consider impaired has the municipality was unable to the consumer via post nor phone. At the conclusion of the project the service provider consider previously impaired debts to be collectable. The municipality is currently in the process of contacting the consumer to recover outstanding debts.

25. Depreciation and amortisation

	2011 R	2010 R
Property, plant and equipment	26 346 837	24 566 293

26. Finance costs

	2011 R	2010 R
Non-current borrowings	1 914 175	2 315 907
Trade and other payables	146 758	57 586
Finance leases	-	25 784
Bank	130 904	2 115 782
Fair value adjustments on payables	4 381 237	-
	6 573 074	**4 515 059**

Notes to the Annual Financial Statements

	2011 R	2010 R

27. Bulk purchases

Water	2 918 787	2 485 091

28. Cash generated from operations

Surplus	143 011 550	7 028 240
Adjustments for:		
Depreciation and amortisation	26 346 837	24 566 293
Gain on sale of assets and liabilities	149 382	218 104
Finance costs - Finance leases	-	25 784
Impairment deficit	5 239 710	-
Debt impairment	(27 930 981)	80 758 598
Movements in operating lease assets and accruals	(52 554)	(180 573)
Movements in retirement benefit assets and liabilities	325 779	596 720
Changes in working capital:		
Inventories	(287 430)	1 471 409
Trade and other receivables from exchange transactions	489 941	(500 835)
Other receivables from non-exchange transactions	(99 626)	14 899 969
Consumer debtors	(76 675 279)	(75 326 544)
Prepayments	507 659	(959 877)
Trade and other payables from exchange transactions	2 403 699	21 120 153
VAT	2 747 056	3 994 527
Unspent conditional grants and receipts	(4 524 313)	(18 685 716)
Consumer deposits	1 383 171	248 669
	73 034 601	**59 274 921**

29. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	149 314 411	148 976 266

This committed expenditure relates to property, plant and equipment and will be financed by government grants and subsidy and internal funding.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1 683 964	1 505 417
- in second to fifth year inclusive	353 108	317 591
	2 037 072	**1 823 008**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five (5) years with an agreed escalation. No contingent rent is payable.

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Contingencies

	2011 R	2010 R
Claim Dispute - D. Kistadu	15 000	15 000

A fire hydrant manhole cover was removed from the road. The claimant damaged his motor cycle when he drove over the exposed fire hydrant. Both the Emnambithi Local Municipality and uThukela District Municipality have being summoned to identify which municipality is liable.

	2011 R	2010 R
Claim dispute - Aon South African (Pty) Ltd	1 000 000	1 000 000

Aon lodged an appeal against the tender process and procurement of the appointment of Indwe Risk Services as the brokers for the Council's insurance portfolio.

	2011 R	2010 R
Claim dispute - Telkom	15 000	15 000

Telkom lodged a claim against Council for damages caused to telkom cables in Main Road C section Ezakheni during repairs done to burst water pipes.

	2011 R	2010 R
Claim dispute - Telkom	15 000	15 000

Telkom lodged a claim against Council for damages caused to telkom cables in Pendy Street, Ladysmith during repairs done to burst water pipes.

	2011 R	2010 R
Claim dispute - M.E. Ndlovu	800 000	800 000

A child had been injured whilst playing on a windmill in the Thawa area. The claimant is suing the Council for injuries sustained. A settle of R150 000. agreed between the insurance company and the municipal lawyers, has been offered as settlement. The Council's insurers subsequently indicated that the matter must be decided in court and there should be no further negotiations. The matter is accordingly proceeded to Court.

	2011 R	2010 R
AQUAMANZI	690 000	690 000

Municipality is being sued for work done.

	2011 R	2010 R
J. Potgieter	5 000	5 000

Municipality is being sued for damage to a wall during a repair to a burst pipe.

	2011 R	2010 R
J vd Merwe	4 000 000	4 000 000

uThukela District Municipality and Emnambithi Local Municipality is being sued for a reservoir that was constructed on the plaintiff's land.

	2011 R	2010 R
Emnambithi/Ladysmith Municipality	-	1 358 914

Emnambithi/Ladysmith Municipality is responsible for the refurbishment of roads. They have however billed uThukela DM for the refurbishment of roads in cases were uThukela DM had to dig up the road to replace burst water pipes. This matter is still under dispute and has to be resolved between the District and the Local Municipality.

	2011 R	2010 R
Mgazi Engineering	3 000 000	-

Relates to payments due the supplier for services render.

	2011 R	2010 R
Ladysmith Trading	3 500 000	-

Relates to payments due the supplier for services render.

	2011 R	2010 R
Jeffares & Green	597 000	-

Relates to payments due the supplier for services render.

	2011 R	2010 R
IPTCO	600 000	-

Dispute regarding property rates in respect of Giants Castle Hotel. The claimant resolved to legal action as the municipality did not want to reassess the rate randage applied to the property. Amount claimed includes legal cost incurred by the claimant.

31. Related parties

Relationships

Close family member of key management	Mrs S Mhkize

Related party transactions

Fees paid to related parties

	2011 R	2010 R
Nhloso Rural Development	53 958 327	15 668 000

Mrs S Mkhize, a municipal staff member, is married to the member of Nhloso Rural Development. The company was successful in being appointed to assist the municipality with some of it's sanitation projects. Mrs Mkhize had not being involved in the tender process. Subsequently, Mrs Mkhize has resigned from the employment of the municipality during 2010/11 financial year.

	2011 R	2010 R

32. Prior period adjustments

Property, Plant and Equipment previously recorded at nil values were revalued stated at cost less accumulated depreciated.

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

	2011 R	2010 R
Statement of financial position		
Property, plant and equipment	-	6 545 797
Sundry debtors	-	(2 130)
Sundry Creditors	-	(11 324 216)
Unspent grants	-	(500 000)
Opening Accumualted Surplus or Deficit	-	(6 543 667)
Statement of Financial Performance		
General expense	-	11 824 216

33. Risk management

Liquidity risk

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

Interest rate risk

The municipality's interest risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The municipality has independently rated some of their customer. Others, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

34. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated surplus of R 641 784 809 and that the municipality's total assets exceed its liability by R 641 784 809.

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

The municipality faces the going concern challenge, this saw the financial position of the municipality deteriorating over years. This condition poses a risks of the possibility that the municipality may fail to continue doing business in the foreseeable future as envisage by the legislation.

The above condition is emanating from the following issues:
1) Demarcation process which left the municipality with huge debts with no accompanying income base.
2) High levels of poverty thus increased number of consumers who are not paying for services.
3) High unemployment rate.
4) Dilapidated infrastructure transferred by local municipalities during the transfer period which was accompanied by no reserves or provisions.
5) Socio political issues which saw some sectors of our communities not paying for services.
6) Draught and other factors associated with climate change (e.g drying of water sources)
7) Developments by other spheres of Government (in particular Housing) which are not accompanied by funding to assist the municipality to enhance its infrastructure and this results in further financial strain on already overstretched financial resources.

The above culminates in cash flow difficulties and resultant consequences (e.g delay in payment of creditors), use of 14.37% of conditional grants for operating activities and a reduced financial strength of the municipality.

Notes to the Annual Financial Statements

	2011 R	2010 R

34. Going concern (continued)

Over and above the strategy described above, the municipality is in serious discussion with the Development Bank of Southern Africa (DBSA) with an aim of implementing "Integrated Revenue Management Strategy").

The integrated revenue management strategy addresses the following:
1) Data cleansing process
2) Exploration of the Private Public Partnerships
3) Exploring Prepaid meters as a preferred mode of metering
4) Sourcing of loan funding to replace or refurbish the existing infrastructure
5) Infrastructure development opportunities
6) Front loading of MIG to speedily address infrastructure needs.

35. Events after the reporting date

There is no matters or events arising after the reporting date.

36. Unauthorised expenditure

	2011 R	2010 R
Council - Repairs and maintenance	-	62 768
- Employee cost	867	228 374
Municipal manager - Depreciation	81 731	91 186
Corporate services - Depreciation	9 398	178 958
- Employee cost	-	621 723
Satellite offices - Employee cost	-	139 852
- Depreciation	-	43 687
Finance - Employee cost	202 959	520 638
- Depreciation	-	148 618
- Bad debt provision	-	1 733 417
- General expenses	-	29 516
Technical: Regional - Depreciation	-	1 676
- Employee cost	433 710	-
Technical: Planning - Depreciation	-	85 930
- Employee cost	212 081	-
Health services - Employee cost	100 320	239 952
- Depreciation	-	49 789
Water and sanitation - Employee cost	2 160 021	3 234 058
- Depreciation	-	23 079 286
- Bad debt provision	-	77 825 181
- Loss on disposal of assets	-	218 104
- Impairment of assets	5 239 710	-
	8 440 797	**108 532 713**

Increase in leave provision and the post retirement benefit plan, had not being budgeted by the municipality thus an over expenditure in the employee cost.

During the asset verification process the conditionals assessment was performed of the municipal asset. Some assets were identified to have being impaired. The impairment provision was not included in the budget statement as there were no sound basis to be used to provide for impairments.

Bad debt provision for the previous year was erroneously disclosed as R93 883 667. The correction of the error did not effect the amount disclosed in the statement of financial performance.

37. Fruitless and wasteful expenditure

	2011 R	2010 R
Eskom	110 470	49 112
KZN Joint municipal pension	3 185	553
Telkom	3 445	7 921
Auditor General	1 410	-
Emnambithi/Ladysmith Municipality	16 576	-
Legal fees	2 238	-
Metro protection services	9 433	-
	146 757	**57 586**

Notes to the Annual Financial Statements

	2011 R	2010 R

37. Fruitless and wasteful expenditure (continued)

Reconciliation of fruitless and wasteful expenditure

Opening Balance	57 586	-
Current year expenditure	146 757	57 586
Waiting for condonement/repayment	**204 343**	**57 586**

Relates to interest raised by suppliers because of the late payment. Fruitless and wasteful expenditure will be presented to council for condonement.

38. Water losses (estimated)

Water losses - quantity (KL)	26 259 648	25 586 373
Water losses - cost (R)	18 513 052	17 347 561

The cost of water losses is calculated using the quantity (kl) times the cost of R0,705, which is cost incurred to purify water.

The above attributes to among other things, water loss during pipe bursts, unidentified leaks, thief of water meters, nonmetered areas like Ezakheni and unidentified illegal connections. The water losses (KL) represents 63.1% of production capacity.

39. Reconciliation between budget and statement of financial performance

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

Net surplus per the statement of financial performance	143 011 550	7 028 240
Adjusted for:		
Impairments recognised / reversed	5 239 710	-
Gain on the sale of assets	149 382	218 104
Increases / decreases in provisions	(31 138 034)	119 041 900
Increase in revenue	(103 811 998)	(113 616 325)
Decrease in operating expenditure	(13 450 610)	(12 671 919)
Net surplus per approved budget	**-**	**-**

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	5 500	-
Current year subscription / fee	69 756	68 551
Amount paid - current year	(69 756)	(63 051)
Amount paid - previous years	(5 500)	-
	-	**5 500**

Balance included in current liabilities.

Audit fees

Opening balance	277 504	511 932
Current year subscription / fee	1 200 000	1 000 000
Amount paid - current year	(1 374 931)	(722 496)
Amount paid - previous years	(277 504)	(511 932)
	(174 931)	**277 504**

Notes to the Annual Financial Statements

	2011 R	2010 R

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

PAYE and UIF

	2011 R	2010 R
Opening balance	959 422	-
Current year subscription / fee	12 718 364	10 192 856
Amount paid - current year	(12 718 364)	(9 233 434)
Amount paid - previous years	(959 422)	-
	-	**959 422**

Balance included in current liabilities.

Pension and Medical Aid Deductions

	2011 R	2010 R
Opening balance	1 142 038	-
Current year subscription / fee	14 078 418	12 936 482
Amount paid - current year	(14 078 418)	(11 794 444)
Amount paid - previous years	(1 142 038)	-
	-	**1 142 038**

Balance included in current liabilities.

VAT

	2011 R	2010 R
VAT payable	15 299 420	12 552 364

VAT output payables and VAT input receivables are shown in note 16.

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

Councillors' arrear consumer accounts

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

30 June 2011	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
TJMB Jeebodh	256	15 311	15 567
SD Magubane	311	7 470	7 781
	567	**22 781**	**23 348**

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. There were no deviation noted during the financial year .

41. Actual operating expenditure versus budgeted operating expenditure

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

42. Actual capital expenditure versus budgeted capital expenditure

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

Notes to the Annual Financial Statements

Figures in Rand

43. Statement of comparative and actual information

2011

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	387 000	447 000	447 000	446 938	62	100 %	115 %
Service charges	61 748 000	106 247 000	106 247 000	108 313 676	(2 066 676)	102 %	175 %
Investment revenue	1 203 000	19 377 000	19 377 000	-	19 377 000	- %	- %
Transfers recognised - operational	216 566 000	217 373 000	217 373 000	314 296 727	(96 923 727)	145 %	145 %
Other own revenue	44 737 000	197 000	197 000	24 395 088	(24 198 088)	12 383 %	55 %
Total revenue (excluding capital transfers and contributions)	**324 641 000**	**343 641 000**	**343 641 000**	**447 452 429**	**(103 811 429)**	**130 %**	**138 %**
Employee costs	(99 230 000)	(95 241 000)	(95 241 000)	(97 327 115)	2 086 115	102 %	98 %
Remuneration of councillors	(7 265 000)	(4 284 000)	(4 284 000)	(3 719 455)	(564 545)	87 %	51 %
Debt impairment	(1 339 000)	(1 300 000)	(1 300 000)	27 930 981	(29 230 981)	(2 149)%	(2 086)%
Depreciation and asset impairment	(29 964 000)	(28 253 000)	(28 253 000)	(31 586 547)	3 333 547	112 %	105 %
Finance charges	(4 187 000)	(4 187 000)	(4 187 000)	(6 573 074)	2 386 074	157 %	157 %
Materials and bulk purchases	(38 186 000)	(3 000 000)	(3 000 000)	(2 918 787)	(81 213)	97 %	8 %
Other expenditure	(291 490 000)	(353 738 000)	(353 738 000)	(190 246 882)	(163 491 118)	54 %	65 %
Total expenditure	**(471 661 000)**	**(490 003 000)**	**(490 003 000)**	**(304 440 879)**	**(185 562 121)**	**62 %**	**65 %**
Surplus/(Deficit)	**(147 020 000)**	**(146 362 000)**	**(146 362 000)**	**143 011 550**	**(289 373 550)**	**(98)%**	**(97)%**

Notes to the Annual Financial Statements

Figures in Rand

43. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	147 020 000	146 362 000	146 362 000	-	146 362 000	- %	- %
Surplus (Deficit) after capital transfers and contributions	**-**	**-**	**-**	**143 011 550**	**(143 011 550)**	**DIV/0 %**	**DIV/0 %**
Surplus/(Deficit) for the year	**-**	**-**	**-**	**143 011 550**	**(143 011 550)**	**DIV/0 %**	**DIV/0 %**

Notes to the Annual Financial Statements

Figures in Rand

43. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	147 020 000	146 362 000	146 362 000	-	146 362 000	- %	- %
Sources of capital funds							
Transfers recognised - capital	147 020 000	146 362 000	146 362 000	-	146 362 000	- %	- %
Cash flows							
Net cash from (used) operating	150 777 000	149 315 000	149 315 000	73 034 601	76 280 399	49 %	48 %
Net cash from (used) investing	(148 976 000)	(149 315 000)	(149 315 000)	(74 599 867)	(74 715 133)	50 %	50 %
Net cash from (used) financing	-	-	-	(3 436 291)	3 436 291	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**1 801 000**	**-**	**-**	**(5 001 557)**	**5 001 557**	**DIV/0 %**	**(278)%**
Cash and cash equivalents at the beginning of the year	-	914 000	914 000	(2 960 316)	3 874 316	(324)%	DIV/0 %
Cash and cash equivalents at year end	**1 801 000**	**914 000**	**914 000**	**(7 961 873)**	**8 875 873**	**(871)%**	**(442)%**

Appendix A
June 2011

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2011 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
DBSA @ 12.00%	10346/202	31/03/2018	3 482 411	-	279 756	3 202 655	-	-
DBSA @ 10.00%	9631/101	31/03/2015	6 028 426	-	983 022	5 045 404	-	-
DBSA @ 12.00%	9631/201	31/03/2017	4 729 595	-	464 030	4 265 565	-	-
DBSA @ 15.25%	9631/401	31/03/2019	750 048	-	43 221	706 827	-	-
DBSA @ 9.71%	9631/502	30/09/2019	147 250	-	15 500	131 750	-	-
DBSA @ 9.81%	13674/101	30/09/2020	1 830 780	-	174 360	1 656 420	-	-
DBSA @ 11.00%	2955/102	30/09/2010	772 216	-	772 216	-	-	-
			17 740 726	**-**	**2 732 105**	**15 008 621**	**-**	**-**
Lease liability								
ABSA	70851968	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	70851984	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	70851992	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	70852000	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	70852018	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	70852026	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	70851976	14/06/2011	26 977	-	26 977	-	34 134	-
ABSA	76759320	14/03/2013	259 242	-	88 305	170 937	193 223	-
ABSA	77450721	06/08/2013	96 933	-	27 908	69 025	81 449	-
ABSA	77452767	06/08/2013	96 933	-	27 907	69 026	81 449	-
ABSA	77451310	06/08/2013	96 933	-	27 907	69 026	81 449	-
ABSA	77451426	06/08/2013	96 933	-	27 907	69 026	81 449	-
ABSA	77451604	06/08/2013	96 971	-	27 919	69 052	81 449	-
ABSA	77451787	06/08/2013	96 933	-	27 907	69 026	81 449	-
ABSA	77452481	06/08/2013	96 933	-	27 907	69 026	81 449	-
ABSA	77452961	06/08/2013	96 934	-	27 907	69 027	81 449	-
ABSA	77453070	06/08/2013	96 934	-	27 907	69 027	81 449	-
ABSA	77451205	06/08/2013	96 934	-	27 907	69 027	81 449	-
ABSA	77579341	06/09/2013	220 726	-	61 734	158 992	189 921	-
			1 638 178	**-**	**617 961**	**1 020 217**	**1 436 572**	**-**
Total external loans			**19 378 904**	**-**	**3 350 066**	**16 028 838**	**1 436 572**	**-**

Appendix B

June 2011

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Under constructions Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Under constructions Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	1 037 872	-	-	-	-	**-**	**1 037 872**	-	-	-	-	-	**-**	1 037 872
Buildings (Separate for AFS purposes)	482 857	-	-	-	-	**-**	**482 857**	(226 149)	-	-	(15 256)	-	**(241 405)**	241 452
	1 520 729	**-**	**-**	**-**	**-**	**-**	**1 520 729**	**(226 149)**	**-**	**-**	**(15 256)**	**-**	**(241 405)**	**1 279 324**
Infrastructure														
Water mains & purification	523 354 839	497 196	(103 043)	64 368 395	-	**-**	**588 117 387**	(101 914 275)	36 617	-	(16 038 790)	(3 160 453)	**(121 076 901)**	467 040 486
Sewerage main & purification	251 890 398	-	(22 698)	-	-	**-**	**251 867 700**	(44 148 612)	8 528	-	(6 943 808)	(102 774)	**(51 186 666)**	200 681 034
Reservoirs - Water	25 717 311	-	-	-	-	**-**	**25 717 311**	(3 581 418)	-	-	(600 071)	-	**(4 181 489)**	21 535 822
Water meters	6 531 967	-	-	-	-	**-**	**6 531 967**	(5 227 669)	-	-	(252 302)	(125 769)	**(5 605 740)**	926 227
	807 494 515	**497 196**	**(125 741)**	**64 368 395**	**-**	**-**	**872 234 365**	**(154 871 974)**	**45 145**	**-**	**(23 834 971)**	**(3 388 996)**	**(182 050 796)**	**690 183 569**
Other assets														
Motor vehicles	5 827 439	293 791	(424 023)	-	-	**-**	**5 697 207**	(4 530 549)	361 815	-	(246 894)	-	**(4 415 628)**	1 281 579
Computer Equipment	2 831 590	2 395 302	(303 073)	-	-	**-**	**4 923 819**	(2 099 605)	261 934	-	(387 863)	-	**(2 225 534)**	2 698 285
Computer Software (part of computer equipment)	161 808	15 006	-	-	-	**-**	**176 814**	(105 334)	-	-	(18 298)	-	**(123 632)**	53 182
Furniture & Fittings	2 835 176	24 342	(42 257)	-	-	**-**	**2 817 261**	(2 098 064)	37 022	-	(165 739)	(2 451)	**(2 229 232)**	588 029
Office Equipment	1 251 634	420 000	(151 229)	-	-	**-**	**1 520 405**	(1 122 538)	151 229	-	(71 225)	-	**(1 042 534)**	477 871
Emergency & fire equipment	4 192 343	-	-	-	-	**-**	**4 192 343**	(847 302)	-	-	(331 579)	(1 541 183)	**(2 720 064)**	1 472 279
Other assets	5 275 750	116 265	(90 260)	-	-	**-**	**5 301 755**	(2 877 215)	88 474	-	(611 045)	(307 080)	**(3 706 866)**	1 594 889
Office equipment - Leased	751 020	-	-	-	-	**-**	**751 020**	(642 770)	-	-	(33 149)	-	**(675 919)**	75 101
Motor vehicles - leased	3 610 741	-	(115 730)	-	-	**-**	**3 495 011**	(1 348 628)	83 325	-	(629 102)	-	**(1 894 405)**	1 600 606
	26 737 501	**3 264 706**	**(1 126 572)**	**-**	**-**	**-**	**28 875 635**	**(15 672 005)**	**983 799**	**-**	**(2 494 894)**	**(1 850 714)**	**(19 033 814)**	**9 841 821**
Intangible assets														
Water rights	55 000	-	-	-	-	**-**	**55 000**	(2 291)	-	-	(1 833)	-	**(4 124)**	50 876
	55 000	**-**	**-**	**-**	**-**	**-**	**55 000**	**(2 291)**	**-**	**-**	**(1 833)**	**-**	**(4 124)**	**50 876**
Total	**835 807 745**	**3 761 902**	**(1 252 313)**	**64 368 395**	**-**	**-**	**902 685 729**	**(170 772 419)**	**1 028 944**	**-**	**(26 346 954)**	**(5 239 710)**	**(201 330 139)**	**701 355 590**

Appendix C
June 2011

Segmental analysis of property, plant and equipment as at 30 June 2011

	Cost							Accumulated Depreciation/Impairment						
	Opening Balance Rand	**Additions Rand**	**Disposals Rand**	**Under construction Rand**	**Revaluations Rand**	**Other changes, movements Rand**	**Closing Balance Rand**	**Opening Balance Rand**	**Disposals Rand**	**Under construction Rand**	**Depreciation Rand**	**Impairment deficit Rand**	**Closing Balance Rand**	**Carrying value Rand**
Municipality														
Council	225 907	40 127	(5 572)	-	-	-	**260 462**	(162 754)	5 400	-	(8 010)	-	**(165 364)**	95 098
Municipal Manager	621 390	2 200	(13 912)	-	-	-	**609 678**	(299 596)	13 263	-	(89 520)	-	**(375 853)**	233 825
Corporate Services	3 595 845	163 462	(94 463)	-	-	-	**3 664 844**	(2 907 198)	88 807	-	(117 939)	-	**(2 936 330)**	728 514
Sateliite Offices	853 212	-	(23 799)	-	-	-	**829 413**	(538 197)	21 797	-	(45 395)	-	**(561 795)**	267 618
Finance	1 804 297	979 394	(140 370)	-	-	-	**2 643 321**	(1 354 245)	133 025	-	(240 813)	-	**(1 462 033)**	1 181 288
Technical - Regional	21 854	-	-	-	-	-	**21 854**	(19 812)	-	-	-	-	**(19 812)**	2 042
Technical - Planning & IT	1 669 608	1 659 337	(315 336)	-	-	-	**3 013 609**	(1 267 747)	279 866	-	(184 378)	-	**(1 172 259)**	1 841 350
Project Management	702	-	-	-	-	-	**702**	(632)	-	-	-	-	**(632)**	70
Corporate Social	160 148	-	(10 504)	-	-	-	**149 644**	(130 484)	9 481	-	(5 438)	-	**(126 441)**	23 203
Health and Environmental	392 891	-	(5 522)	-	-	-	**387 369**	(241 054)	3 420	-	(52 037)	-	**(289 671)**	97 698
Water services	574 132 876	895 101	(611 432)	64 368 395	-	-	**638 784 940**	(119 576 726)	457 793	-	(18 624 167)	(5 239 710)	**(142 982 810)**	495 802 130
Sanitation	252 274 015	22 281	(31 403)	-	-	-	**252 264 893**	(44 271 683)	16 092	-	(6 977 424)	-	**(51 233 015)**	201 031 878
Total	**835 752 745**	**3 761 902**	**(1 252 313)**	**64 368 395**	**-**	**-**	**902 630 729**	**(170 770 128)**	**1 028 944**	**-**	**(26 345 121)**	**(5 239 710)**	**(201 326 015)**	**701 304 714**

Appendix D
June 2011

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
98 295 011	29 250 431	69 044 580	Council	130 183 140	57 588 195	72 594 945
-	2 653 744	(2 653 744)	Municipal manager	-	2 744 723	(2 744 723)
-	18 283 747	(18 283 747)	Corporate services	-	17 932 951	(17 932 951)
-	10 895 483	(10 895 483)	Finance	-	674 360	(674 360)
6 571 098	10 760 381	(4 189 283)	Technical - planning	4 427 852	21 499 583	(17 071 731)
-	5 105 311	(5 105 311)	Health and environmental	-	6 397 421	(6 397 421)
109 504 003	53 236 760	56 267 243	Project management	101 317 775	7 775 588	93 542 187
183 727 520	260 883 536	(77 156 016)	Water and sanitation	211 374 280	189 678 681	21 695 599
398 097 632	**391 069 393**	**7 028 239**		**447 303 047**	**304 291 502**	**143 011 545**

Appendix E(1)
June 2011

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2011

	Current year 2011 Bud. Amt Rand	Current year 2011 Act. Bal. Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	447 000	446 938	62	-	
Service charges	102 777 180	108 313 676	(5 536 496)	(5.1)	
Interest received (trading)	19 377 000	21 260 354	(1 883 354)	(8.9)	
Fines	-	700	(700)	(100.0)	Fines imposed by Health services were not budgeted.
Government grants & subsidies	217 373 000	314 296 727	(96 923 727)	(30.8)	Budget includes actual grant receipts while the actual includes conditions for the grant that have being met and then recongnised as income.
Other income	3 666 820	3 134 035	532 785	17.0	Decrease in Trade Effluent Income
	343 641 000	447 452 430	(103 811 430)	(23.2)	
Expenses					
Personnel	(95 241 000)	(97 327 117)	2 086 117	(2.1)	
Remuneration of councillors	(4 284 000)	(3 719 455)	(564 545)	15.2	Budgeted increase was 12% however the actual increase was 5%.
Depreciation	(28 253 000)	(26 346 837)	(1 906 163)	7.2	
Impairments	-	(5 239 710)	5 239 710	(100.0)	No bases was available to use to budget for impairments.
Finance costs	(4 187 000)	(6 573 073)	2 386 073	(36.3)	It the first year that the municipality had made a fair value adjustment to its accounts payable.
Debt impairment	(1 300 483)	27 930 981	(29 231 464)	(104.7)	Intentsive investigation into water consumers accounts to re-establish recoverablity resulted in a reversal of previous debt impairment provision.
Collection costs	(1 207 076)	(1 167 651)	(39 425)	3.4	
Repairs and maintenance - General	(25 167 119)	(23 238 368)	(1 928 751)	8.3	
Bulk purchases	(3 000 000)	(2 918 787)	(81 213)	2.8	
General Expenses	(181 001 322)	(165 691 481)	(15 309 841)	9.2	
	(343 641 000)	(304 291 498)	(39 349 502)	12.9	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	-	(149 382)	149 382	(100.0)	
Net surplus/ (deficit) for the year	-	143 011 550	(143 011 550)	(100.0)	

Appendix E(2)
June 2011

Budget Analysis of Capital Expenditure as at 30 June 2011

	Additions	Revised Budget	Variance R	Variance %	Explanation of significant variances from budget
Municipality					
Council	40 127	-	(40 127)	**-**	Asset relates to the purchase of IT equipment. The budget is included under the operating budget as the IT department have a management contract in place with a preferred service provider which includes the maintenance of the municipality's IT system and purchase of new computer equipment.
Municipal manager	2 200	-	(2 200)	**-**	Asset relates to the purchase of IT equipment. The budget is included under the operating budget as the IT department have a management contract in place with a preferred service provider which includes the maintenance of the municipality's IT system and purchase of new computer equipment.
Corporate services	163 462	5 664	(157 798)	**(2 786)**	Asset relates to the purchase of IT equipment. The budget is included under the operating budget as the IT department have a management contract in place with a preferred service provider which includes the maintenance of the municipality's IT system and purchase of new computer equipment.
Finance	979 394	4 000	(975 394)	**(24 385)**	Office furniture and equipment for internals was purchases from the FMG grant. Balance of the assets were purchased from the IT maintenance contract.
Technical - regional	-	146 362 041	146 362 041	**100**	This is the managing agents for the capital projects. Once these assets have been completed. they are transferred to the user department. Bulk infrastructure for 2010/11 is included in Water and Sanitation.
Technical - planning	1 659 337	-	(1 659 337)	**-**	Asset relates to the purchase of IT equipment. The budget is included under the operating budget as the IT department have a management contract in place with a preferred service provider which includes the maintenance of the municipality's IT system and purchase of new computer equipment.
Water and sanitation	65 285 777	2 942 706	(62 343 071)	**(2 119)**	Capitalised the Bulk infrastructure that was budgeted under Technical - Regional who is the municipality's implementation agent for capital projects.
	68 130 297	**149 314 411**	**81 184 114**	**54**	

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-			
Regional bulk scheme	National Treasury	2 756	600	8 114	-	-	-	3 562	5 913	-	-	-	-		Yes	
MSIG	National Treasury	750	-	-	-	150	-	-	302	-	-	-	-		Yes	
Masification Grant	Provincial Treasury	-	-	3 540	-	-	-	-	731	-	-	-	-		Yes	
FMG Grant	National Treasury	1 000	-	-	-	-	84	586	-	-	-	-	-		Yes	
Public works programme	National Treasury	15	-	-	-	-	-	-	-	-	-	-	-		Yes	
Environmental management plan	Provincial Treasury	-	-	1 500	-	-	-	-	-	-	-	-	-		Yes	
IGR Grant	Provincial Treasury	417	-	-	-	-	-	-	-	-	-	-	-		Yes	
LGSETA	Province	43	142	60	-	-	-	-	-	-	-	-	-		Yes	
MIG	National Treasury	35 000	33 000	23 334	-	7 995	9 152	15 963	53 068	-	-	-	-		Yes	
		-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-			
		39 981	33 742	36 548	-	8 145	9 236	20 111	60 014	-	-	-	-			

Note: All amounts are shown R '000. This excludes allocations from the Equitable Share.