MAKANA
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2011/2012

ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2012

MAKANA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

INDEX

EXECUTIVE MAYOR

Hon. Cllr. Z.J. Peter

SPEAKER

Cllr. M.R. Madinda-Isaac

OTHER MEMBERS OF THE MAYORAL COMMITTEE

Chairperson: Finance, Administration, Monitoring & Evaluation Portfolio Committee	Cllr. P Ranchhod
Chairperson: Infrastructure Development Portfolio Committee	Cllr. N Gaga
Chairperson: Social Development Portfolio Committee	Cllr. M Matyumza
Chairperson: Local Economic Development Portfolio Committee	Cllr. P Notyawa
Chairperson: Tourism & Cultural Industries Portfolio Committee	Cllr. N Masoma

GRADING OF THE LOCAL AUTHORITY

Grade 3

EXTERNAL AUDITORS

Office of the Auditor General (Port Elizabeth)
P.O. Box 210917
The Fig Tree
Port Elizabeth
6033

PRIMARY BANKER

First National Bank

REGISTERED OFFICE

City Hall High Street Grahamstown 6139	PO Box 176 Grahamstown 6140

Telephone: (046) 603-6130 Facsimile: (046) 636 2472
Website: http://www.makana.gov.za/

MUNICIPAL MANAGER (Acting)

Ms R. Meiring

CHIEF FINANCIAL OFFICER (Acting)

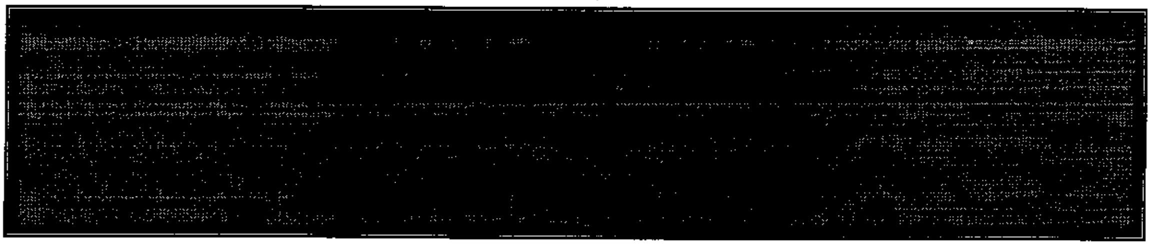
M. Crouse

[redacted]

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 8 to 100, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003) and which I have signed on behalf of the municipality.

R MEIRING	**M CROUSE**
ACTING MUNICIPAL MANAGER	**ACTING CHIEF FINANCIAL OFFICER**
31 August 2012	31 August 2012



COUNCILLORS	WARD	PROPORTIONAL COUNCILLORS
Cllr. N. Ngoqo	1	
Cllr. N. Meti	2	
Cllr. M. Booysen	3	
Cllr. L. May	4	
Cllr. M. Tame	5	
Cllr. N. Masoma	6	
Cllr. M. Khubalo	7	
Cllr. B. Jackson	8	
Cllr. K. Solomon	9	
Cllr. V. Kolisi	10	
Cllr. M. Gojela	11	
Cllr. B. Fargher	12	
Cllr. M.G. Madinda	13	
Cllr. E. Louw	14	
Cllr. N. Gaga	-	Proportional
Cllr. B. Bonani	-	Proportional
Cllr. P. Ranchhod	-	Proportional
Cllr. X. Madyo	-	Proportional
Cllr. R.M. Madinda	-	Proportional
Cllr. Z. Peter	-	Proportional
Cllr. T. Ngeleza	-	Proportional
Cllr. L. Reynolds	-	Proportional
Cllr. N.C. Tyantsula	-	Proportional
Cllr. M. Matyumza	-	Proportional
Cllr. J.C. Wells	-	Proportional
Cllr. D. Waldick	-	Proportional
Cllr. N. Plaatjie	-	Proportional
Cllr. P. Notyawa	-	Proportional

[redacted]

CERTIFICATION OF REMUNERATION OF COUNCILLORS

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

R MEIRING
ACTING MUNICIPAL MANAGER
31 August 2012

13. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 13 and 21 for more detail.

14. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

ACTING CHIEF FINANCIAL OFFICER

31 August 2012

MAKANA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

AUDIT REPORT

The 2011/12 Audit Report will be attached hereto when received, after the completion of the statutory audit.

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the financial position of Makana Municipality at 30 June 2012 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2010/11 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

Financial Statement Ratios:

INDICATOR	2012	2011
Surplus / (Deficit) before Appropriations	(13 739 685)	(38 707 635)
Surplus / (Deficit) at the end of the Year	1 258 740 971	1 245 013 734
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	31.28%	29.66%
Remuneration of Councillors	2.33%	1.87%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	12.87%	13.89%
Impairment Losses	8.26%	14.07%
Repairs and Maintenance	3.29%	4.83%
Interest Paid	0.05%	0.08%
Bulk Purchases	19.53%	15.02%
Contracted Services	0.82%	0.69%
Grants and Subsidies Paid	6.06%	7.04%
General Expenses	15.51%	12.84%

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D".

The services offered by Makana Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2012 are as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	1 245 013 734	1 428 393 846	(12.84)	-	100.00
Operating income for the year	316 911 404	294 139 916	7.74	296 610 080	6.84
Appropriations for the year	-	-	-	-	-
	1 561 925 138	1 722 533 762	(9.32)	296 610 080	426.59
Expenditure:					
Operating expenditure for the year	330 651 090	332 847 551	(0.66)	296 571 990	11.49
Sundry transfers	(27 466 923)	144 672 478	(118.99)	-	100.00
Closing surplus / (deficit)	1 258 740 971	1 245 013 734	1.10	38 090	3 304 549.44
	1 561 925 138	1 722 533 762	(9.32)	296 610 080	426.59

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	87 238 613	86 323 220	1.06	67 920 180	28.44
Expenditure	157 179 684	180 535 972	(12.94)	124 474 210	26.27
Surplus / (Deficit)	(69 941 071)	(94 212 751)	(25.76)	(56 554 030)	23.67
Surplus / (Deficit) as % of total income	(80.17)%	(109.14)%		(83.27)%	

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	-	(2 324)	(100.00)	-	-
Expenditure	33 790	41 386	(18.35)	44 750	(24.49)
Surplus / (Deficit)	(33 790)	(43 710)	(22.69)	(44 750)	(24.49)
Surplus / (Deficit) as % of total income	(100.00)%	1880.79%		(100.00)%	

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	52 186 050	51 781 658	0.78	49 953 600	4.47
Expenditure	37 341 041	35 921 481	3.95	38 178 560	(2.19)
Surplus / (Deficit)	14 845 009	15 860 177	(6.40)	11 775 040	26.07
Surplus / (Deficit) as % of total income	28.45%	30.63%		23.57%	

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R62 550 574 (2011: R47 892 069). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	101 467 151	99 016 056	2.48	112 922 650	(10.14)
Expenditure	91 596 751	77 064 231	18.86	86 823 920	5.50
Surplus / (Deficit)	9 870 401	21 951 826	(55.04)	26 098 730	(62.18)
Surplus / (Deficit) as % of total income	9.73%	22.17%		23.11%	

3.5 Water Services:

Water is bought in bulk and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R2 028 314 (2011: R1 999 897). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	76 019 590	60 151 108	26.38	65 813 650	15.51
Expenditure	44 499 824	42 414 284	4.92	47 050 550	(5.42)
Surplus / (Deficit)	31 519 766	17 736 824	77.71	18 763 100	67.99
Surplus / (Deficit) as % of total income	41.46%	29.49%		28.51%	

4. RECONCILIATION OF BUDGET TO ACTUAL

4.1 Operating Budget:

DETAILS	2012	2011
Variance per Category:		
Budgeted surplus before appropriations	38 090	53 412 110
Revenue variances	20 301 324	(15 830 924)
Expenditure variances:		
Employee Related Costs	4 299 740	(3 996 783)
Remuneration of Councillors	(827 188)	756 435
Collection Costs	-	-
Depreciation and Amortisation	(36 468 360)	(40 767 120)
Impairment Losses	(4 810 568)	(24 774 815)
Repairs and Maintenance	9 104 750	1 900 441
Interest Paid	(145 319)	(280 683)
Bulk Purchases	(3 296 048)	(1 570 075)
Contracted Services	1 255 189	1 066 933
Grants and Subsidies Paid	3 447 428	(1 568 761)
General Expenses	(6 638 724)	(6 396 018)
Loss on disposal of Property, Plant and Equipment	-	-
Profit/Loss on Discontinued Operation	-	(658 374)
Actual surplus/(Deficit) before appropriations	(13 739 685)	(38 707 635)

DETAILS	2012	2011
Variance per Service Segment:		
Budgeted surplus before appropriations	38 090	53 412 110
Executive and Council	(1 370 071)	1 219 806
Finance and Administration	(44 603 694)	(84 592 175)
Planning and Development	5 069 024	(11 263 618)
Health	52 539	954 961
Community and Social Services	530 965	(793 888)
Housing	10 960	(2 280)
Public Safety	4 755 822	1 581 681
Sport and Recreation	14 592 266	5 368 857
Environmental Protection	234 836	25 682
Waste Management	3 069 969	(4 615 933)
Roads and Transport	7 411 298	9 284 063
Water	12 756 666	(7 881 096)
Electricity	(16 228 329)	(1 385 674)
Other	(60 027)	(20 131)
Revenue Foregone	-	-
Actual surplus before appropriations	(13 739 685)	(38 707 635)

5. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2012 amounted to R1 258 740 971 (30 June 2011: R1 245 013 734) and is made up as follows:

Capital Replacement Reserve	-
Capitalisation Reserve	-
Donations and Public Contributions Reserve	-
Government Grants Reserve	-
Accumulated Surplus	1 258 740 971
	1 258 740 971

Refer to Note 19 and the Statement of Change in Net Assets for more detail.

6. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R92 161 (30 June 2011: R601 449).

Refer to Note 15 and Appendix "A" for more detail.

7. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2012 was R51 374 540 (30 June 2011: R43 102 639).

This liability is in respect of continued Healh Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 16 for more detail.

8. NON-CURRENT PROVISIONS

Non-current Provisions amounted R4 728 260 as at 30 June 2012 (30 June 2011: R4 192 594) and is made up as follows:

Provision for Long-term Service	3 544 625
Provision for Rehabilitation of Land-fill Sites	1 183 635
	4 728 260

These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 17 for more detail.

9. CURRENT LIABILITIES

Current Liabilities amounted R116 677 647 as at 30 June 2012 (30 June 2011: R131 677 535) and is made up as follows:

Consumer Deposits	Note 10	2 097 299
Provisions	Note 11	3 283 987
Payables	Note 12	47 520 241
Unspent Conditional Grants and Receipts	Note 13	56 867 161
VAT	Note 14	6 445 746
Current Portion of Long-term Liabilities	Note 15	463 213
		116 677 647

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

10. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R1 304 908 720 as at 30 June 2012 (30 June 2011: R1 286 590 746).

11. NON-CURRENT INVESTMENTS

The municipality held Investments to the value of R12 587 802 as at 30 June 2012 (30 June 2011: R11 777 283).

The bulk of these investments are ring-fenced for purposes of the Unspent Conditional Grants, with the result that no significant amounts are available for own purposes.

Refer to Note 9 for more detail.

12. CURRENT ASSETS

Current Assets amounted R119 447 114 as at 30 June 2012 (30 June 2011: R131 530 990) and is made up as follows:

Inventories	Note 2	17 487 197
Receivables from Exchange Transactions	Note 4	51 745 105
Receivables from Non-exchange Transactions	Note 5	5 660 824
Cash and Cash Equivalents	Note 6	44 401 236
Operating Lease Assets	Note 7	54 753
		119 447 114

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

13. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 13 and 21 for more detail.

14. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

ACTING CHIEF FINANCIAL OFFICER

31 August 2012

MAKANA MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

	Note	Actual 2012 R	2011 R
ASSETS			
Current Assets		**119 447 114**	**131 530 990**
Inventories	2	17 487 197	15 472 293
Non-current Assets Held-for-Sale	3	98 000	-
Receivables from Exchange Transactions	4	51 745 105	35 786 045
Receivables from Non-exchange Transactions	5	5 660 824	5 545 271
Cash and Cash Equivalents	6	44 401 236	74 672 629
Operating Lease Receivables	7	54 753	54 753
Non-Current Assets		**1 317 556 041**	**1 298 427 547**
Property, Plant and Equipment	8	1 304 908 720	1 286 590 746
Intangible Assets	N/A	59 519	59 519
Non-current Investments	9	12 587 802	11 777 283
Total Assets		**1 437 003 155**	**1 429 958 537**
LIABILITIES			
Current Liabilities		**116 677 647**	**131 677 535**
Consumer Deposits	10	2 097 299	1 985 768
Provisions	11	3 283 987	2 321 399
Payables	12	47 520 241	46 384 796
Unspent Conditional Grants and Receipts	13	56 867 161	62 964 418
VAT Payable	14	6 445 746	13 520 542
Bank Overdraft	6	-	3 522 875
Current Portion of Long-term Liabilities	15	463 213	977 738
Non-Current Liabilities		**56 194 961**	**47 896 682**
Long-term Liabilities	15	92 161	601 449
Retirement Benefit Liabilities	16	51 374 540	43 102 639
Non-current Provisions	17	4 728 260	4 192 594
Total Liabilities		**172 872 608**	**179 574 217**
Total Assets and Liabilities		**1 264 130 547**	**1 250 384 320**
NET ASSETS		**1 264 130 547**	**1 250 384 320**
Statutory Funds	18	5 389 576	5 370 586
Accumulated Surplus / (Deficit)	19	1 258 740 971	1 245 013 734
Total Net Assets		**1 264 130 547**	**1 250 384 320**

MAKANA MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

	Note	Actual 2012 R	Actual 2011 R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	**20**	35 605 626	32 337 921
Fines		567 259	1 144 351
Licences and Permits		2 098 696	2 583 655
Income for Agency Services		1 138 804	942 661
Government Grants and Subsidies Received	**21**	100 777 915	93 057 346
Revenue from Exchange Transactions			
Service Charges	**22**	159 868 535	139 827 982
Rental of Facilities and Equipment	**23**	1 195 544	1 034 354
Interest Earned - External Investments	**24**	3 939 181	4 767 261
Interest Earned - Outstanding Debtors	**24**	9 228 364	7 787 726
Other Income	**25**	2 491 480	10 815 309
Gains on Disposal of Property, Plant and Equipment		-	(158 650)
Total Revenue		**316 911 404**	**294 139 916**
EXPENDITURE			
Employee Related Costs	**26**	103 422 670	98 540 463
Remuneration of Councillors	**27**	7 703 708	6 210 055
Collection Costs		-	-
Depreciation and Amortisation	**28**	42 543 610	46 128 900
Impairment Losses	**29**	27 320 198	46 742 015
Repairs and Maintenance		10 887 460	16 038 748
Finance Costs	**30**	166 319	280 683
Bulk Purchases	**31**	64 578 888	49 891 965
Contracted Services	**32**	2 706 241	2 297 238
Grants and Subsidies Paid	**33**	20 053 402	23 392 021
General Expenses	**34**	51 268 594	42 667 088
Total Expenditure		**330 651 090**	**332 189 177**
OTHER REVENUE / EXPENDITURE INCURRED			
Discontinued Operations:			
Surplus / (Deficit) from Discontinued Operations	**35**	-	(658 374)
SURPLUS / (DEFICIT) FOR THE YEAR		**(13 739 685)**	**(38 707 635)**

MAKANA MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012

Description	Housing Development Fund	Revaluation Reserve	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R	R	R
2011				
Balance at 30 June 2010	5 352 976	-	1 428 393 846	1 433 746 822
Change in Accounting Policy			-	-
Correction of Error		-	(144 672 478)	(144 672 478)
Restated Balance	**5 352 976**	**-**	**1 283 721 368**	**1 289 074 344**
Surplus / (Deficit) for the year	-		(38 707 635)	(38 707 635)
Contributions to Funds and Reserves			-	-
Interest allocated to Funds and Reserves	17 610		-	17 610
Donated / Contributed PPE			-	-
Grants utilised to obtain PPE			-	-
Funds and Reserves utilised to finance PPE	-		-	-
Asset disposals		-	-	-
Offsetting of Depreciation		-	-	-
Balance at 30 June 2011	**5 370 586**	**-**	**1 245 013 734**	**1 250 384 320**
2012				
Change in Accounting Policy (Note N/A)			-	-
Correction of Error			27 466 923	27 466 923
Restated Balance	**5 370 586**	**-**	**1 272 480 657**	**1 277 851 243**
Surplus / (Deficit) for the year			(13 739 685)	(13 739 685)
Contributions to Funds and Reserves	-		-	-
Interest allocated to Funds and Reserves	18 990		-	18 990
Donated / Contributed PPE			-	-
Grants utilised to obtain PPE			-	-
Funds and Reserves utilised to finance PPE	-		-	-
Asset disposals		-	-	-
Offsetting of Depreciation		-	-	-
Balance at 30 June 2012	**5 389 576**	**-**	**1 258 740 971**	**1 264 130 547**

MAKANA MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	Actual 2012 R	2011 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates	**20**	35 546 537	34 509 780
Grants	**21**	106 875 171	73 083 202
Service Charges	**22**	150 814 941	102 484 851
Interest Received	**24**	3 939 181	4 767 261
Other Receipts		5 184 429	63 063 347
Payments			
Employee Related Costs	**26**	(93 652 515)	(88 788 776)
Remuneration of Councillors	**27**	(7 703 708)	(6 210 055)
Interest Paid	**30**	(166 319)	(280 683)
Suppliers Paid		(77 037 144)	(49 894 613)
Other Payments		(87 853 174)	(73 606 084)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**35 947 399**	**59 128 229**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	**8**	(60 861 585)	(45 715 760)
Purchase of Intangible Assets	**N/A**	-	(61 765)
Proceeds on Disposal of Property, Plant and Equipment		-	(158 650)
Decrease / (Increase) in Non-current Investments	**9**	(810 519)	(10 605 365)
Decrease / (Increase) in Long-term Receivables	**N/A**	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(61 672 104)**	**(56 541 540)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowings	**15**	(1 023 813)	(1 805 316)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(1 023 813)**	**(1 805 316)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**6**	**(26 748 518)**	**781 373**
Cash and Cash Equivalents at Beginning of Period		71 149 754	70 368 381
Cash and Cash Equivalents at End of Period		44 401 236	71 149 754

MAKANA MUNICIPALITY
BUDGET STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

30 June 2012

Description	Original Total Budget	Budget Adjustments	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE									
Revenue from Non-exchange Transactions									
Property Rates	36 990 890	-	-	36 990 890	35 605 626	-	(1 385 264)	96.26	96.26
Property Rates - Penalties imposed and collection charges	-	-	-	-	-	-	-	0.00	0.00
Fines	733 360	-	-	733 360	567 259	-	(166 101)	77.35	77.35
Licences and Permits	2 348 580	-	-	2 348 580	2 098 696	-	(249 884)	89.36	89.36
Income for Agency Services	650 000	-	-	650 000	1 138 804	-	488 804	175.20	175.20
Government Grants and Subsidies Received	63 997 510	-	-	63 997 510	51 812 134	-	(12 185 376)	80.96	80.96
Public Contributions and Donations	-	-	-	-	-	-	-	0.00	0.00
Revenue from Exchange Transactions									
Service Charges	176 035 800	-	-	176 035 800	159 868 535	-	(16 167 265)	90.82	90.82
Rental of Facilities and Equipment	1 403 020	-	-	1 403 020	1 195 544	-	(207 476)	85.21	85.21
Interest Earned - External Investments	4 800 000	-	-	4 800 000	3 939 181	-	(860 819)	82.07	82.07
Interest Earned - Outstanding Debtors	8 000 000	-	-	8 000 000	9 228 364	-	1 228 364	115.35	115.35
Dividends Received	-	-	-	-	-	-	-	0.00	0.00
Royalties Received	-	-	-	-	-	-	-	0.00	0.00
Other Income	1 650 920	-	-	1 650 920	2 491 480	-	840 560	150.91	150.91
Other Gains on Continued Operations	-	-	-	-	-	-	-	0.00	0.00
Gains on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	0.00	0.00
Profit on Sale of Land	-	-	-	-	-	-	-	0.00	0.00
Total Revenue	296 610 080	-	-	296 610 080	267 945 624	-	(28 664 456)	90.34	90.34
Expenditure									
Employee Related Costs	108 442 410	(720 000)	-	107 722 410	103 422 670	-	(4 299 740)	96.01	95.37
Remuneration of Councillors	6 876 520	-	-	6 876 520	7 703 708	827 188	827 188	112.03	112.03
Collection Costs	-	-	-	-	-	-	-	0.00	0.00
Depreciation and Amortisation	6 075 250	-	-	6 075 250	42 543 610	36 468 360	36 468 360	700.28	700.28
Impairment Losses	22 509 630	-	-	22 509 630	27 320 198	4 810 568	4 810 568	121.37	121.37
Repairs and Maintenance	19 972 210	20 000	-	19 992 210	10 887 460	-	(9 104 750)	54.46	54.51
Finance Costs	21 000	-	-	21 000	166 319	145 319	145 319	792.00	792.00
Bulk Purchases	61 282 840	-	-	61 282 840	64 578 888	3 296 048	3 296 048	105.38	105.38
Contracted Services	3 640 430	321 000	-	3 961 430	2 706 241	-	(1 255 189)	68.31	74.34
Grants and Subsidies Paid	23 806 830	(306 000)	-	23 500 830	20 053 402	-	(3 447 428)	85.33	84.23
Research and Development Costs	-	-	-	-	-	-	-	0.00	0.00
General Expenses	43 982 960	646 910	-	44 629 870	51 268 594	6 638 724	6 638 724	114.88	116.56
Other Losses on Continued Operations	-	-	-	-	-	-	-	0.00	0.00
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	0.00	0.00
Total Expenditure	296 610 080	(38 090)	-	296 571 990	330 651 090	52 186 207	34 079 100	111.49	111.48
Surplus/(Deficit)	-	38 090	-	38 090	(62 705 466)	(52 186 207)	(62 743 556)	0.00	0.00
Transfers Recognised - Capital	-	-	-		48 965 780	48 965 780	48 965 780	0.00	0.00
Contributions Recognised - Capital and Contributed Assets	-	-	-		-	-	-	0.00	0.00
Surplus/(Deficit) after Capital Transfers and	-	38 090	-	38 090	(13 739 685)	(3 220 427)	(13 777 775)	0.00	0.00
Surplus / (Deficit) from Discontinued Operations	-	-	-	-	-	-	-	0.00	0.00
Share of Surplus/(Deficit) of Associate	-	-	-	-	-	-	-	0.00	0.00
Surplus/(Deficit for the Year	**-**	**38 090**	**-**	**38 090**	**(13 739 685)**	**(3 220 427)**	**(13 777 775)**	**-**	**-**

30 June 2011

Description	Original Total Budget	Budget Adjustments	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE									
Revenue from Non-exchange Transactions									
Property Rates	32 307 437	2 415 563	-	34 723 000	32 337 921	-	(2 385 079)	93.13	100.09
Property Rates - Penalties imposed and collection charges	-	-	-	-	-	-	-	0.00	0.00
Fines	1 189 079	(476 329)	-	712 750	1 144 351	-	431 601	160.55	96.24
Licences and Permits	76 855	1 997 985	-	2 074 840	2 583 655	-	508 815	124.52	3 361.73
Income for Agency Services	6 347 313	(5 647 313)	-	700 000	942 661	-	242 661	134.67	14.85
Government Grants and Subsidies Received	400 384 917	(289 165 767)	-	111 219 150	51 385 816	-	(59 833 334)	46.20	12.83
Public Contributions and Donations	(8 000)	8 000	-	-	-	-	-	0.00	0.00
Revenue from Exchange Transactions									
Service Charges	186 566 938	(44 098 718)	-	142 468 220	139 827 982	-	(2 640 238)	98.15	74.95
Rental of Facilities and Equipment	816 205	354 425	-	1 170 630	1 034 354	-	(136 276)	88.36	126.73
Interest Earned - External Investments	13 000 000	(5 500 000)	-	7 500 000	4 767 261	-	(2 732 739)	63.56	36.67
Interest Earned - Outstanding Debtors	2 120 000	5 880 000	-	8 000 000	7 787 726	-	(212 274)	97.35	367.35
Dividends Received	-	-	-	-	-	-	-	0.00	0.00
Royalties Received	-	-	-	-	-	-	-	0.00	0.00
Other Income	2 705 066	(1 302 816)	-	1 402 250	10 815 309	-	9 413 059	771.28	399.82
Other Gains on Continued Operations	-	-	-	-	-	-	-	0.00	0.00
Gains on Disposal of Property, Plant and Equipment	-	-	-	-	(158 650)	-	(158 650)	0.00	0.00
Profit on Sale of Land	4 166 767	(4 166 767)	-	-	-	-	-	0.00	0.00
Total Revenue	649 672 577	(339 701 737)	-	309 970 840	252 468 386	-	(57 502 454)	81.45	38.86
Expenditure									
Employee Related Costs	152 864 589	(58 320 909)	-	94 543 680	98 540 463	3 996 783	3 996 783	104.23	64.46
Remuneration of Councillors	14 483 810	(7 517 320)	-	6 966 490	6 210 055	-	(756 435)	89.14	42.88
Collection Costs	100 000	(100 000)	-	-	-	-	-	0.00	0.00
Depreciation and Amortisation	44 191 038	(38 829 258)	-	5 361 780	46 128 900	40 767 120	40 767 120	860.33	104.39
Impairment Losses	32 193 880	(10 226 680)	-	21 967 200	46 742 015	24 774 815	24 774 815	212.78	145.19
Repairs and Maintenance	66 415 744	(48 476 555)	-	17 939 189	16 038 748	-	(1 900 441)	89.41	24.15
Finance Costs	-	-	-	-	280 683	280 683	280 683	0.00	0.00
Bulk Purchases	106 200 000	(57 878 110)	-	48 321 890	49 891 965	1 570 075	1 570 075	103.25	46.98
Contracted Services	13 828 009	(10 463 838)	-	3 364 171	2 297 238	-	(1 066 933)	68.29	16.61
Grants and Subsidies Paid	29 185 553	(7 362 293)	-	21 823 260	23 392 021	1 568 761	1 568 761	107.19	80.15
Research and Development Costs	-	-	-	-	-	-	-	0.00	0.00
General Expenses	25 855 104	10 415 966	-	36 271 070	42 667 088	6 396 018	6 396 018	117.63	165.02
Other Losses on Continued Operations	-	-	-	-	-	-	-	0.00	0.00
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	0.00	0.00
Total Expenditure	485 317 727	(228 758 997)	-	256 558 730	332 189 177	79 354 255	75 630 447	129.48	68.45
Surplus/(Deficit)	164 354 850	(110 942 740)	-	53 412 110	(79 720 790)	(79 354 255)	(133 132 900)	0.00	0.00
Transfers Recognised - Capital	-	-	-		41 671 530	41 671 530	41 671 530	0.00	0.00
Contributions Recognised - Capital and Contributed Assets	-	-	-		-	-	-	0.00	0.00
Surplus/(Deficit) after Capital Transfers and	164 354 850	(110 942 740)	-	53 412 110	(38 049 261)	(37 682 725)	(91 461 371)	0.00	0.00
Surplus / (Deficit) from Discontinued Operations	-	-	-	-	(658 374)	-	(658 374)	0.00	0.00
Share of Surplus/(Deficit) of Associate	-	-	-	-	-	-	-	0.00	0.00
Surplus/(Deficit for the Year	**164 354 850**	**(110 942 740)**	**-**	**53 412 110**	**(38 707 635)**	**(37 682 725)**	**(92 119 745)**	**-**	**-**

	2012 R	2011 R

1. GENERAL INFORMATION

Makana Municipality is a local government institution in Grahamstown, Eastern Cape Province, and is one of nine local municipalities under the jurisdiction of the Cacadu District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

	2012 R	2011 R
Consumable Stores - at cost	3 076 258	2 636 229
Maintenance Materials - at cost	4 045 672	3 342 945
Water - at cost	10 365 268	9 493 119
Total Inventories	**17 487 197**	**15 472 293**

The cost of water production for the year amounted to R5,89 per kilolitre (2011: R5,40 per kilolitre).

No Inventories have been pledged as collateral for Liabilities of the municipality.

3. NON-CURRENT ASSETS HELD-FOR-SALE

	2012 R	2011 R
Vehicles Held-for-Sale - at cost	98 000	-
Net Non-current Assets Held-for-Sale	**98 000**	**-**

3.1 Vehicles Held-for-Sale

The municipality intends to dispose of vehicles within the next year. No impairment loss was recognised on reclassification of the property as held-for-sale nor at 30 June 2012.

4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

As at 30 June 2012	**Gross Balances R**	**Provision for Impairment R**	**Net Balances R**
Service Debtors:	161 641 812	112 775 130	48 866 682
Electricity	46 385 057	23 124 373	23 260 684
Refuse	12 656 481	10 605 529	2 050 952
Sewerage	32 478 701	29 964 584	2 514 117
Water	70 121 573	49 080 644	21 040 929
Other Receivables	4 218 679	1 340 256	2 878 423
Total Receivables from Exchange Transactions	**165 860 492**	**114 115 387**	**51 745 105**

As at 30 June 2011	**Gross Balances R**	**Provision for Impairment R**	**Net Balances R**
Service Debtors:	139 839 374	115 630 342	24 209 031
Electricity	39 351 302	19 617 831	19 733 472
Refuse	9 276 412	7 773 192	1 503 220
Sewerage	30 988 025	28 589 299	2 398 726
Water	60 223 635	59 650 022	573 613
Other Receivables	16 967 523	5 390 510	11 577 014
Total Receivables from Exchange Transactions	**156 806 897**	**121 020 852**	**35 786 045**

	2012	2011
	R	R

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Receivables.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

4.1 Reconciliation of the Provision for Impairment

	2012 R	2011 R
Balance at beginning of year	121 020 852	111 422 462
Impairment Losses recognised	9 383 127	-
Impairment Losses reversed	(4 572 559)	9 598 390
Amounts written off as uncollectable	(11 716 033)	-
Amounts recovered	-	-
Balance at end of year	**114 115 387**	**121 020 852**

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

4.2 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2012			
Assessment Rates Debtors	29 901 408	26 718 191	3 183 217
Payments Made In Advance	234 612	-	234 612
Sundry Deposits	772 958	-	772 958
Sundry Debtors	1 470 036	-	1 470 036
Total Receivables from Non-exchange Transactions	**32 379 015**	**26 718 191**	**5 660 824**

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2011			
Assessment Rates Debtors	29 842 319	27 433 450	2 408 869
Payments Made In Advance	282 850	-	282 850
Short-Term Loans	-	-	-
Sundry Deposits	826 358	-	826 358
Sundry Debtors	2 027 194	-	2 027 194
Total Receivables from Non-exchange Transactions	**32 978 721**	**27 433 450**	**5 545 271**

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

	2012 R	2011 R

	2012 R	2011 R

5.1 Reconciliation of Provision for Impairment

Balance at beginning of year	27 433 450	24 671 777
Impairment Losses recognised	-	2 761 674
Impairment Losses reversed	-	-
Amounts written off as uncollectable	(715 259)	-
Amounts recovered	-	-
Balance at end of year	**26 718 191**	**27 433 450**

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

Furtermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.

6. CASH AND CASH EQUIVALENTS

Current Investments	38 012 590	74 665 337
Bank Accounts	6 381 354	-
Bank Overdraft	-	(3 522 875)
Other Cash and Cash Equivalents	7 293	7 293
Total Bank, Cash and Cash Equivalents	**44 401 236**	**71 149 754**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

6.1 Current Investment Deposits

Call Deposits	35 045 150	71 796 110
Notice Deposits	2 967 440	2 869 227
Total Current Investment Deposits	**38 012 590**	**74 665 337**

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4,90 % to 5,50 % (2011: 4,90% to 5,50%) per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5,40 % to 6,53 % (2011: 5,40 % to 6,53 %)per annum.

6.2 Bank Accounts

Cash in Bank	6 381 354	-
Bank Overdraft	-	(3 522 875)
Total Bank Accounts	**6 381 354**	**(3 522 875)**

The Municipality has the following bank accounts:

	2012 R	2011 R
Primary Bank Accounts		
Cash book balance at beginning of year	(3 522 875)	(3 903 082)
Cash book balance at end of year	6 381 354	(3 522 875)
First National Bank, Grahamstown - Account Number 620 312 325 31:		
Bank statement balance at beginning of year	1 061 715	1 789 603
Bank statement balance at end of year	7 415 493	1 061 715
Standard Bank, Grahamstown:		
Bank statement balance at beginning of year	3 026 124	990 771
Bank statement balance at end of year	522 693	3 026 124

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

6.3 Cash and Cash Equivalents

	2012 R	2011 R
Cash Floats and Advances	7 293	7 293
Total Cash on hand in Cash Floats, Advances and Equivalents	**7 293**	**7 293**

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

7. OPERATING LEASE ASSETS / RECEIVABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

	2012 R	2011 R
Balance at beginning of year	54 753	54 753
Operating Lease Revenue recorded	-	-
Operating Lease Revenue effected	-	-
Total Operating Lease Assets	**54 753**	**54 753**

7.1 Leasing Arrangements

The Municipality as Lessor:
Operating Leases relate to Property owned and leased out by the municipality. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The following restrictions have been imposed by the municipality in terms of the lease agreements:
(i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
(ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
(iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

8 PROPERTY, PLANT AND EQUIPMENT

30 June 2012

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Community	Other	Leased Infra-structure	Total
	R	R	R	R	R	R
Carrying values at 01 July 2011	**733 354 941**	**480 017 481**	**53 275 850**	**19 892 111**	**50 363**	**1 286 590 746**
Cost	751 872 469	535 760 993	57 650 142	25 784 930	2 026 301	1 373 094 836
- *Completed Assets*	*751 872 469*	*491 098 706*	*53 013 176*	*25 784 930*	*2 026 301*	*1 323 795 583*
- *Under Construction*	-	*44 662 287*	*4 636 967*	-	-	*49 299 253*
Correction of error (Note 39)	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(18 517 528)	(55 743 512)	(4 374 293)	(5 892 820)	(1 975 938)	(86 504 090)
- *Cost*	*(18 517 528)*	*(55 743 512)*	*(4 374 293)*	*(5 892 820)*	*(1 975 938)*	*(86 504 090)*
- *Revaluation*	-	-	-	-	-	-
Acquisitions	285 343	8 311 125	2 940 276	9 256 992	-	20 793 735
Borrowing Costs Capitalised	-	-	-	-	-	-
Capital under Construction - Additions:	288 138	32 652 194	7 127 518	-	-	40 067 850
- *Cost*	*288 138*	*32 652 194*	*7 127 518*	-	-	*40 067 850*
- *Borrowing Costs Capitalised*	-	-	-	-	-	-
Increases in Revaluation	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-
Depreciation:	(8 973 179)	(27 349 240)	(2 182 595)	(4 038 597)	-	(42 543 610)
- *Based on Cost*	*(8 973 179)*	*(27 349 240)*	*(2 182 595)*	*(4 038 597)*	-	*(42 543 610)*
- *Based on Revaluation*	-	-	-	-	-	-
Decreases in Revaluation	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	-	(5 081 520)	-	-	-	(5 081 520)
Other Movements	-	5 081 520	-	-	-	5 081 520
- Cost	-	-	-	-	-	-
- Revaluation	-	5 081 520	-	-	-	5 081 520
- Accumulated Impairment Losses	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-
Carrying values at 30 June 2012	**724 955 243**	**493 631 560**	**61 161 049**	**25 110 505**	**50 363**	**1 304 908 720**
Cost	752 445 950	571 642 792	67 717 936	35 041 922	2 026 301	1 428 874 901
- *Completed Assets*	*752 157 812*	*499 409 831*	*55 953 452*	*35 041 922*	*2 026 301*	*1 344 589 318*
- *Under Construction*	*288 138*	*72 232 960*	*11 764 485*	-	-	*84 285 583*
Revaluation	-	5 081 520	-	-	-	5 081 520
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(27 490 707)	(83 092 752)	(6 556 887)	(9 931 417)	(1 975 938)	(129 047 700)
- *Cost*	*(27 490 707)*	*(83 092 752)*	*(6 556 887)*	*(9 931 417)*	*(1 975 938)*	*(129 047 700)*
- *Revaluation*	-	-	-	-	-	-

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2011

Reconciliation of Carrying Value

Description	Land and Buildings	Infra- structure	Community	Other	Leased Infra- structure	Total
	R	R	R	R	R	R
Carrying values at 01 July 2010	**741 128 141**	**473 046 964**	**49 974 030**	**17 444 137**	**743 219**	**1 282 336 491**
Cost	750 699 089	501 640 389	52 219 816	20 793 481	2 026 301	1 327 379 076
- *Completed Assets*	*750 576 250*	*460 117 616*	*52 219 816*	*20 793 481*	*2 026 301*	*1 285 733 464*
- *Under Construction*	*122 839*	*41 522 773*	-	-	-	*41 645 612*
Correction of error (Note 39)	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(9 570 948)	(28 593 425)	(2 245 786)	(3 349 344)	(1 283 082)	(45 042 585)
- *Cost*	*(9 570 948)*	*(28 593 425)*	*(2 245 786)*	*(3 349 344)*	*(1 283 082)*	*(45 042 585)*
- *Revaluation*	-	-	-	-	-	-
Acquisitions	123 540	1 308 325	793 360	4 991 450	-	7 216 674
Borrowing Costs Capitalised	-	-	-	-	-	-
Capital under Construction - Additions:	1 049 841	32 812 279	4 636 967	-	-	38 499 087
- *Cost*	*1 049 841*	*32 812 279*	*4 636 967*	-	-	*38 499 087*
- *Borrowing Costs Capitalised*	-	-	-	-	-	-
Increases in Revaluation	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-
Depreciation:	(8 946 581)	(27 150 087)	(2 128 507)	(2 543 476)	(692 855)	(41 461 505)
- *Based on Cost*	*(8 946 581)*	*(27 150 087)*	*(2 128 507)*	*(2 543 476)*	*(692 855)*	*(41 461 505)*
- *Based on Revaluation*	-	-	-	-	-	-
Decreases in Revaluation	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	(1 172 680)	(29 672 765)	-	-	-	(30 845 445)
Other Movements	1 172 680	29 672 765	-	-	-	30 845 445
- Cost	1 172 680	29 672 765	-	-	-	30 845 445
- Revaluation	-	-	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-
Carrying values at 30 June 2011	**733 354 941**	**480 017 481**	**53 275 850**	**19 892 111**	**50 363**	**1 286 590 746**
Cost	751 872 469	535 760 993	57 650 142	25 784 930	2 026 301	1 373 094 836
- *Completed Assets*	*751 872 469*	*491 098 706*	*53 013 176*	*25 784 930*	*2 026 301*	*1 323 795 583*
- *Under Construction*	-	*44 662 287*	*4 636 967*	-	-	*49 299 253*
Revaluation	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(18 517 528)	(55 743 512)	(4 374 293)	(5 892 820)	(1 975 938)	(86 504 090)
- *Cost*	*(18 517 528)*	*(55 743 512)*	*(4 374 293)*	*(5 892 820)*	*(1 975 938)*	*(86 504 090)*
- *Revaluation*	-	-	-	-	-	-

	2012 R	2011 R

9 NON-CURRENT INVESTMENTS

	2012 R	2011 R
Financial Instruments		
Fixed Deposits	12 587 802	11 777 283
Total Investments		
All Investments	12 587 802	11 777 283
Less: Short-term Portion transferred to Current Investments	-	-
Total Non-current Investments	**12 587 802**	**11 777 283**

Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 9,42 % to 15,27 % per annum.

Included in Non-Current investments are balances ring-fenced for the following specific purposes:

10 CONSUMER DEPOSITS

	2012 R	2011 R
Electricity and Water	2 097 299	1 985 768
Total Consumer Deposits	**2 097 299**	**1 985 768**
Guarantees held in lieu of Elecricity and Water Deposits	**1 775 596**	**1 775 596**

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.

11 PROVISIONS

	2012 R	2011 R
Performance Bonuses	718 541	-
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 18)	1 752 588	1 564 728
Current Portion of Non-Current Provisions (See Note 19):	812 858	756 671
Long-term Service	812 858	756 671
Rehabilitation of Land-fill Sites	-	-
Total Provisions	**3 283 987**	**2 321 399**

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

	2012	2011
	R	R
The movement in provisions are reconciled as follows:		
Current Provisions:		
Performance Bonuses:		
Balance at beginning of year	-	-
Contributions to provision	718 541	-
Expenditure incurred	-	-
Balance at end of year	**718 541**	**-**

Current Portion of Non-Current Provisions:

	Long-term Service	Post-retirement
	R	R
30 June 2012		
Balance at beginning of year	756 671	1 564 728
Transfer from non-current	56 187	187 860
Expenditure incurred	-	-
Balance at end of year	**812 858**	**1 752 588**
30 June 2011		
Balance at beginning of year	374 965	1 594 951
Transfer from/to non-current	381 706	(30 223)
Balance at end of year	**756 671**	**1 564 728**

	2012	2011
	R	R
12 PAYABLES		
Trade Creditors	13 629 080	973 314
Payments received in Advance	-	-
Retentions	649 174	635 730
Staff Bonuses	-	-
Staff Leave Accrued	6 873 374	5 104 038
Sundry Deposits	1 572 177	1 274 361
Other Creditors	24 796 436	38 397 353
Total Creditors	**47 520 241**	**46 384 796**

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiaited by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

	2012 R	2011 R

13 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

	2012 R	2011 R
13.1 Conditional Grants from Government	**56 867 161**	**62 964 418**
National Government Grants	(440 417)	109 468
Provincial Government Grants	7 964 055	7 425 172
Other Spheres of Government	1 408 966	916 218
13.2 Other Conditional Receipts	**-**	**-**
Public Contributions	-	-
Total Conditional Grants and Receipts	**56 867 161**	**62 964 418**

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 21 for the reconciliation of Grants from Government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

14 VAT PAYABLE

	2012 R	2011 R
Vat Payable	**6 445 746**	**13 520 542**

Vat is payable on the receipts basis. Only once payment is reveived from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

15 LONG-TERM LIABILITIES

	2012 R	2011 R
Annuity Loans	417 137	1 084 573
Finance Lease Liabilities	138 237	494 614
Sub-total	555 374	1 579 187
Less: Current Portion transferred to Current Liabilities:-	463 213	977 738
Local Registered Stock	-	-
Annuity Loans	463 213	621 360
Finance Lease Liabilities	-	356 378
Government Loans	-	-
Other Loans	-	-
Total Long-term Liabilities (Neither past due, nor impaired)	**92 161**	**601 449**

	2012 R	2011 R

	2012 R	2011 R

16 RETIREMENT BENEFIT LIABILITIES

16.1 Post-retirement Health Care Benefits Liability

	2012 R	2011 R
Balance at beginning of Year	43 102 639	33 724 361
Contributions to Provision	5 905 748	4 129 484
Increase due to Discounting	4 118 741	6 812 528
Expenditure incurred	(1 564 728)	(1 593 957)
Balance at end of Year	51 562 400	43 072 416
Transfer to/from Current Provisions	(187 860)	30 223
Total Post-retirement Health Care Benefits Liabiltiy	**51 374 540**	**43 102 639**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

17 NON-CURRENT PROVISIONS

	2012 R	2011 R
Provision for Long Service Awards	3 544 625	3 008 959
Provision for Rehabilitation of Land-fill Sites	1 183 635	1 183 635
Total Non-current Provisions	**4 728 260**	**4 192 594**

The movement in Non-current Provisions are reconciled as follows:

	Long-service Awards R	Land-fill Sites R
30 June 2012		
Balance at beginning of year	3 008 959	1 183 635
Contributions to provision	1 122 424	-
Increase due to discounting	226 100	-
Expenditure incurred	(756 671)	-
	3 600 812	1 183 635
Transfer to current provisions	(56 187)	-
Balance at end of year	**3 544 625**	**1 183 635**

	2012 R	2011 R
	Long-service Awards R	Land-fill Sites R
30 June 2011		
Balance at beginning of year	2 127 937	1 161 709
Contributions to provision	578 014	21 926
Increase due to discounting	1 059 679	-
Expenditure incurred	(374 965)	-
	3 390 665	1 183 635
Transfer to current provisions	(381 706)	-
Balance at end of year	**3 008 959**	**1 183 635**

17.1 Long Service Awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

18 STATUTORY FUNDS

Statutory Fund No 1	-	-
Housing Development Fund:	5 389 576	5 370 586
Unappropriated Surplus	5 389 576	5 370 586
Loans extinguished by Government on 1 April 1998	-	-
Total Statutory Funds	**5 389 576**	**5 370 586**

19 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Capital Replacement Reserve (CRR)	-	-
Capitalisation Reserve	-	-
Donations and Public Contributions Reserve	-	-
Government Grants Reserve	-	-
Accumulated Surplus / (Deficit) due to the results of Operations	1 258 740 971	1 245 013 734
Total Accumulated Surplus	**1 258 740 971**	**1 245 013 734**

20 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2012 R000's	July 2011 R000's		
Residential	5 919 853	5 919 853	-	-
Commercial	2 075 044	2 075 044	-	-
Residential & Commercial	-	-	37 177 845	34 031 365
Industrial	1 524 167	1 524 167	-	-
State	965 717	965 717	-	-
Municipal	51 256	51 256	617 504	714 005
Educational	25 848	25 848	-	-
Institutional	178 328	178 328	-	-
-Less: Revenue Foregone			(2 189 724)	(2 407 449)
Total Property Rates	**10 740 213**	**10 740 213**	**35 605 626**	**32 337 921**

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2008.

Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

	2012 R	2011 R

21 GOVERNMENT GRANTS AND SUBSIDIES

	2012 R	2011 R
Equatable Share and Other Operating	92 077 523	50 720 591
Operational Grants	92 077 523	50 720 591
Conditional Grants	48 965 780	42 336 755
CACADU District Municipality	-	-
National: MIG Funds	24 744 601	20 818 094
National: Housing	-	3 587 002
National: NEG	169 646	4 514 132
National: NDPG	17 321 745	11 342 759
National: Other	4 635 630	2 074 767
Other Government: National Lottery Fund	-	-
Total Government Grants and Subsidies	**141 043 304**	**93 057 346**

Conditional Grants:

21.1 CACADU District Municipality

	2012	2011
Balance unspent at beginning of year	22 769 477	12 769 477
Current year receipts	-	10 000 000
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(2 094 159)	-
Conditions still to be met - transferred to Liabilities	**20 675 319**	**22 769 477**

21.2 National: MIG Funds

	2012	2011
Balance unspent at beginning of year	9 176 727	14 781 821
Current year receipts	24 312 000	15 213 000
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(24 744 601)	(20 818 094)
Conditions still to be met - transferred to Liabilities	**8 744 126**	**9 176 727**

21.3 National: Housing

	2012	2011
Balance unspent at beginning of year	44 494	3 631 496
Current year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	(3 587 002)
Conditions still to be met - transferred to Liabilities	**44 494**	**44 494**

21.4 National: NEG

	2012	2011
Balance unspent at beginning of year	169 646	(2 726 221)
Current year receipts	-	7 410 000
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(169 646)	(4 514 132)
Conditions still to be met - transferred to Liabilities	**0**	**169 646**

21.5 National: NDPG

	2012	2011
Balance unspent at beginning of year	14 345 424	5 688 182
Current year receipts	11 800 000	20 000 000
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(17 321 745)	(11 342 759)
Conditions still to be met - transferred to Liabilities	**8 823 679**	**14 345 424**

21.6 National: Other Grants

	2012	2011
Balance unspent at beginning of year	5 401 637	(98 371)
Current year receipts	3 475 420	7 574 775
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(665 225)
Conditions met - transferred to Revenue: Capital Expenses	(4 635 630)	(1 409 542)
Conditions still to be met - transferred to Liabilities	**4 241 427**	**5 401 637**

	2012 R	2011 R

22 SERVICE CHARGES

	2012 R	2011 R
Sale of Electricity	97 006 766	91 203 955
Sale of Water	38 748 566	26 612 964
Refuse Removal	7 712 447	6 892 978
Sewerage and Sanitation Charges	16 316 600	14 947 571
Other Service Charges	84 157	170 514
Total Service Charges	**159 868 535**	**139 827 982**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

23 RENTAL OF FACILITIES AND EQUIPMENT

	2012 R	2011 R
Rental Revenue from Amenities	34 300	27 741
Rental Revenue from Halls	97 696	159 605
Rental Revenue from Other Facilities	1 063 548	847 009
Total Rental of Facilities and Equipment	**1 195 544**	**1 034 354**

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented

24 INTEREST EARNED

	2012 R	2011 R
External Investments:		
Bank Account	-	-
Investments	3 939 181	4 767 261
	3 939 181	**4 767 261**
Outstanding Debtors:		
Long-term Debtors	-	-
Outstanding Billing Debtors	9 228 364	7 787 726
	9 228 364	**7 787 726**
Total Interest Earned	**13 167 545**	**12 554 987**

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

	2012 R	2011 R
Avaliable-for-Sale Financial Assets	-	-
Held-to-Maturity Investments	3 939 181	4 767 261
Loans and Receivables	9 228 364	7 787 726
	13 167 545	**12 554 987**

25 OTHER REVENUE

	2012 R	2011 R
Administration / Sale Of Plots	408 764	256 840
Fees: Advertising	2 024	1 212
Fees: Building Plans	448 444	407 256
Fees: Car Pound	8 141	5 540
Fees: Grazing	20 640	18 266
Fees: Weighbridge	3 120	2 220
Licences: Dog	192	573
Prints	21 472	24 405
Royalties: General	35 246	-
Sale: Refuse Bins & Bags	21 193	32 707
Search Fees	1 225	1 686
Sundry Revenue	1 517 128	10 061 221
Tow-In Charges	3 891	3 382
Total Other Revenue	**2 491 480**	**10 815 309**

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 20 to 24, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

	2012 R	2011 R
26 EMPLOYEE RELATED COSTS		
Employee Related Costs - Salaries and Wages	74 207 238	65 833 738
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	17 344 556	18 356 827
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	3 144 371	2 861 688
Housing Benefits and Allowances	415 306	406 381
Overtime Payments	5 945 426	4 269 301
Performance Bonuses	718 541	-
Defined Benefit Plan Expense:	1 647 233	6 812 528
Total Employee Related Costs	**103 422 670**	**98 540 463**
Attributable to:		
Continuing Operations	103 422 670	98 540 463
Discontinued Operations	-	-
	103 422 670	**98 540 463**

No advances were made to employees. Loans to employees are set out in Note N/A.

Remuneration of Section 57 Employees:

	2012	2011
Remuneration of the Municipal Manager		
Annual Remuneration	892 855	878 617
Performance Bonus	148 981	
Car and Other Allowances	171 298	155 671
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**1 213 134**	**1 035 785**
Remuneration of the Chief Financial Officer		
Annual Remuneration	674 471	568 272
Performance Bonus	113 912	-
Car and Other Allowances	130 186	126 489
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**918 569**	**696 258**
Remuneration of the Manager: Community Services		
Annual Remuneration	674 471	655 599
Performance Bonus	113 912	-
Car and Other Allowances	139 186	126 489
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**927 569**	**783 585**
Remuneration of the Manager: Corporate Services		
Annual Remuneration	674 471	547 407
Performance Bonus	113 912	-
Car and Other Allowances	139 186	115 460
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**927 569**	**664 364**
Remuneration of the Manager: Local Economic Development		
Annual Remuneration	674 471	683 962
Performance Bonus	113 912	-
Car and Other Allowances	139 186	126 489
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**927 569**	**811 948**
Remuneration of the Manager: Technical Services		
Annual Remuneration	674 471	655 306
Performance Bonus	113 912	-
Car and Other Allowances	139 186	126 489
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**927 569**	**783 292**

	2012 R	2011 R

27 REMUNERATION OF COUNCILLORS

	2012 R	2011 R
Mayor	472 033	437 068
Speaker	207 695	192 310
Executive Committee Members	1 770 120	1 639 000
Councillors	3 073 691	2 196 195
Company Contributions to UIF, Medical and Pension Funds	-	-
Other Allowances (Cellular Phones, Housing, Transport, etc)	2 180 168	1 745 482
Total Councillors' Remuneration	**7 703 708**	**6 210 055**

In-kind Benefits

The Councillors occupying the positions of Mayor, Speaker and five members of the Mayoral Committee of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties, and some councillors are provided with office space only.

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

28 DEPRECIATION AND AMORTISATION

	2012 R	2011 R
Depreciation: Property, Plant and Equipment	42 543 610	41 461 505
Amortisation: Intangible Assets	-	-
Depreciation: Investment Property	-	-
Total Depreciation and Amortisation	**42 543 610**	**41 461 505**
Attributable to:		
Continuing Operations	42 543 610	41 461 505
Discontinued Operations	-	-
	42 543 610	**41 461 505**

29 IMPAIRMENT LOSSES

29.1 Impairment Losses on Financial Assets

	2012 R	2011 R
Impairment Losses Recognised:	9 383 127	2 761 674
Long-term Receivables	-	-
Receivables from Exchange Transactions	9 383 127	-
Receivables from Non-exchange Transactions	-	2 761 674
Impairment Losses Reversed:	(4 572 559)	9 598 390
Long-term Receivables	-	-
Receivables from Exchange Transactions	(4 572 559)	9 598 390
Receivables from Non-exchange Transactions	-	-
	4 810 568	**12 360 063**
Total Impairment Losses	**4 810 568**	**12 360 063**

30 FINANCE COSTS

	2012 R	2011 R
Bank Overdraft	4 900	-
Loans and Payables at amortised cost	161 419	280 683
Total Interest Paid on External Borrowings	**166 319**	**280 683**

31 BULK PURCHASES

	2012 R	2011 R
Electricity	62 550 574	47 892 069
Water	2 028 314	1 999 897
Total Bulk Purchases	**64 578 888**	**49 891 965**

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom, and Water is purchased from the Department of Water Affairs.

32 CONTRACTED SERVICES

	2012 R	2011 R
Professional Fees	2 706 241	2 297 238
Other Contracted Services	-	-
Total Contracted Services	**2 706 241**	**2 297 238**

33 GRANTS AND SUBSIDIES PAID

	2012 R	2011 R
Municipal Bursaries	70 000	30 000
Free Basic Services	18 336 141	21 984 130
Tourism	542 284	492 579
Internship	846 492	676 053
Other Grants and Subsidies Paid	258 486	209 259
Total Grants and Subsidies	**20 053 402**	**23 392 021**

Free Basic Services are in respect of assistance to and providing basic service levels to indigent households.

Tourism Grants are paid to Makana Tourism, in order to promote tourism in the Makana area of jurisdiction.

Internship Grants are in respect of the National Treasury Internship Program, and funded by the Finance Management Grant

34 GENERAL EXPENSES

Included in General Expenses are the following:

	2012 R	2011 R
External Audit Fees	4 143 712	2 883 935
Administration Charges	2 991 535	2 863 124
Advertising	2 070 546	1 187 489
Bank Charges	812 233	554 890
Chemicals And Poison	2 449 108	2 080 107
Cleaning Material	150 705	106 441
Commisions Paid	1 189 096	928 732
Complaints	102 686	131 633
Conference Expenses	1 681 101	1 240 118
Connection Fees	444 441	423 701
Corporate Branding	129 638	234 687
Electricity & Water	9 797 612	8 419 281
Entertainment	382 272	30 250
Fuel And Oil	3 828 529	3 098 573
General Expenditure Incurred From Grants	306 387	724 006
Insurance And Security	3 097 276	2 487 212
Internal Audit Fees	541 042	545 742
Interview Expenses	59 821	56 204
Legal Costs	3 956 875	2 262 669
License Cards And Licences	419 281	296 259
Loss Control	612 890	683 254
Materials And Stocks	870 117	739 212
Newsletter	81 627	251 229
Other General Expenses	259 562	266 014
Postage, Printing and Other	815 821	750 893
Printing And Stationery	-	9 087
Project Expenses From Own Funds	3 527 557	2 859 583
Protective Clothing	241 108	278 687
Purchases	833 217	616 113
Relocation Expenses	77 991	172 166
Rental Expenses	352 965	362 077
Skills Development Levy	859 987	732 449
Telephone Cost	2 309 681	2 210 184
Training Costs	635 015	423 967
Travelling And Subsistence	963 727	698 881
Uniforms	97 652	16 219
Valuation Expenses	175 778	1 042 022
Total General Expenses	**51 268 594**	**42 667 088**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

No other extra-ordinary expenses were incurred.

	2012	2011
	R	R

35 DISCONTINUED OPERATIONS

35.1 Health Services discontinued

The operations of the Health Services, namely Clinics, Community Services and Prime Health Care, were discontinued during the year and transferred to the Provincial Administration Eastern Cape on 30 June 2011 as per agreement. All moveable assets related to the services have been transferred to the Provincial Health Administration at carrying value with the result that no impairment losses were recognised on the reclassification of these opearations as held-for-sale. The discontinuation of Health Services is consistent with the Health Act, which classifies the services as the responsibility of the Provincial Authority. The transfer of Health Services was completed on 30 June 2011 on which date control of the services passed to the Provincial Administration Eastern Cape.

35.2 Analysis of Surplus / (Deficit) for the year from Discontinued Operations

The results of the Discontinued Operations included in the Statement of Financial Performance are set out below The comparative Surplus/(Deficit) and Cash Flows from Discontinued Operations have been represented to include those operations classified as discontinued in the current period.

	Health Services	Total
	R	R
30 June 2011		
REVENUE		
Government Subsidies	3 129 802	3 129 802
Total Income	**3 129 802**	**3 129 802**
LESS: EXPENDITURE	**3 788 176**	**3 788 176**
Employee Related Costs	3 243 037	3 243 037
Repairs and Maintenance	39 511	39 511
General Expenses	505 628	505 628
	(658 374)	**(658 374)**
Net Surplus/(Deficit) from Discontinued Operations	**(658 374)**	**(658 374)**
Cash Flows from Discontinued Operations		
Net Cash Flows from Operating Activities	(658 374)	(658 374)
	(658 374)	**(658 374)**

36 CASH GENERATED BY OPERATIONS

	2012	2011
Surplus / (Deficit) for the Year	(13 739 685)	(38 707 635)
Adjustment for:		
Depreciation and Amortisation	42 543 610	46 128 900
Impairment Losses on Property, Plant and Equipment	-	-
Losses / (Gains) on Disposal of Property, Plant and Equipment	-	158 650
Profit on Sale of Land	-	-
Property, Plant and Equipment transferred to Assets Held-for-Sale	-	-
Other Movement on Property, Plant and Equipment	-	-
Contribution to Retirement Benefit Liabilities	5 905 748	4 129 484
Expenditure incurred from Retirement Benefit Liabilities	-	-
Contribution to Provisions - Current	718 541	-
Contribution to Provisions - Non-current	1 122 424	599 940
Expenditure incurred from Provisions - Current	-	-
Contribution to Impairment Provision	4 810 568	12 360 063
Bad Debts Written-off	(12 431 292)	-
Operating surplus before working capital changes	**28 173 242**	**24 294 438**
Decrease/(Increase) in Inventories	(2 014 904)	(10 558 284)
Decrease/(Increase) in Non-Current Assets Held-for-Sale	(98 000)	-
Decrease/(Increase) in Receivables from Exchange Transactions	(9 053 595)	(37 343 131)
Decrease/(Increase) in Receivables from Non-exchange Transactions	599 706	1 122 809
Decrease/(Increase) in VAT Receivable	-	-
Decrease/(Increase) in Operating Lease Assets	-	14 702
Decrease/(Increase) in Current Portion of Long-term Receivables	0	182
Increase/(Decrease) in Consumer Deposits	111 532	71 333
Increase/(Decrease) in Payables	1 135 445	18 333 339
Increase/(Decrease) in Conditional Grants and Receipts	(6 097 257)	19 974 144
Increase/(Decrease) in Operating Lease Liabilities	-	-
Cash generated by / (utilised in) Operations	**5 681 373**	**29 430 074**

	2012 R	2011 R

37 NON-CASH INVESTING AND FINANCING TRANSACTIONS

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2011/12 financial year.

38 FINANCING FACILITIES

	2012 R	2011 R
Secured Bank Overdraft Facility:		
- Amount used	1 000 000	1 000 000
- Amount unused	1 000 000	1 000 000
	1 000 000	**1 000 000**

39 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

39.1 Audit Fees

	2012 R	2011 R
Opening Balance	-	-
Current year Audit Fee	4 143 712	2 883 935
Amount Paid - current year	(4 143 712)	(2 883 935)
Amount Paid - previous years		-
Balance Unpaid (included in Creditors)	**-**	**-**

40 FINANCIAL INSTRUMENTS

40.1 Classification

SUMMARY OF FINANCIAL ASSETS

		2012 R	2011 R
Financial Assets at Amortised Cost:			
Non-current Investments	Fixed Deposits	12 587 802	11 777 283
Long-term Receivables	Debtors Capitalised Loans	-	-
Long-term Receivables	Removal Cost Loans	-	-
Receivables from Exchange Transactions	Electricity	23 260 684	19 733 472
Receivables from Exchange Transactions	Refuse	2 050 952	1 503 220
Receivables from Exchange Transactions	Sewerage	2 514 117	2 398 726
Receivables from Exchange Transactions	Water	21 040 929	573 613
Receivables from Exchange Transactions	Other Debtors	2 878 423	11 577 014
Receivables from Non-exchange Transactions	Assessment Rates Debtors	3 183 217	2 408 869
Receivables from Non-exchange Transactions	Payments made in Advance	234 612	282 850
Receivables from Non-exchange Transactions	Sundry Debtors	772 958	826 358
Receivables from Non-exchange Transactions	Insurance Claims	1 470 036	2 027 194
Receivables from Non-exchange Transactions	Unauthorised Expenditure	151 979 825	103 771 693
Cash and Cash Equivalents	Notice Deposits	2 967 440	2 869 227
		224 940 996	159 749 518

		2012 R	2011 R
Financial Assets at Fair Value:			
Cash and Cash Equivalents	Call Deposits	35 045 150	71 796 110
Cash and Cash Equivalents	Bank Balances	6 381 354	-
Cash and Cash Equivalents	Cash Floats and Advances	7 293	7 293
		41 433 796	71 803 402
Total Financial Assets		**266 374 792**	**231 552 921**

FINANCIAL LIABILITIES:

SUMMARY OF FINANCIAL LIABILITIES

		2012 R	2011 R
Financial Liabilities at Amortised Cost:			
Long-term Liabilities	Annuity Loans	(46 075)	463 213
Long-term Liabilities	Finance Lease Liabilities	138 237	138 237
Payables	Trade Creditors	13 629 080	973 314
Payables	Retentions	649 174	635 730
Payables	Staff Leave Accrued	6 873 374	5 104 038
Payables	Sundry Deposits	1 572 177	1 274 361
Payables	Other Creditors	24 796 436	38 397 353
Current Portion of Long-term Liabilities	Annuity Loans	463 213	621 360
Current Portion of Long-term Liabilities	Finance Lease Liabilities	-	356 378
		48 075 615	47 963 983
Financial Liabilities at Fair Value:			
Payables	Payments received in Advance	-	-
		-	3 522 875
Total Financial Liabilities		**48 075 615**	**51 486 858**

40.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash and Short-term Investments
The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Long-term Investments
The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

Loan Receivables/Payables
Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables
The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the the current payment ratio's of the municipality's debtors.

Other Financial Assets and Liabilities
The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities
The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2012, as a result of the short-term maturity of these assets and

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

			2012 R	2011 R
	30 June 2012		30 June 2011	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Measured at Amortised Cost:	224 940 996	224 940 996	159 749 518	159 749 518
Municipal Stock	-	-	-	-
Fixed Deposits	12 587 802	12 587 802	11 777 283	11 777 283
Notice Deposits	2 967 440	2 967 440	2 869 227	2 869 227
Trade Receivables from Exchange Transactions	51 745 105	51 745 105	35 786 045	35 786 045
Trade Receivables from Non-exchange Transactions	157 640 650	157 640 650	109 316 964	109 316 964
Current Portion of Long-term Receivables	-	-	-	-
Measured at Fair Value	41 433 796	41 433 796	71 803 402	71 803 402
Listed Investments	-	-	-	-
Call Deposits	35 045 150	35 045 150	71 796 110	71 796 110
Bank Balances and Cash	6 388 646	6 388 646	7 293	7 293
Total Financial Assets	266 374 792	266 374 792	231 552 921	231 552 921
Measured at Amortised Cost:	48 075 615	48 075 615	47 963 983	47 963 983
Local Registered Stock Loans	-	-	-	-
Annuity Loans	(46 075)	(46 075)	463 213	463 213
Finance Lease Liabilities	138 237	138 237	138 237	138 237
Trade and Other Payables:				
- Creditors	47 520 241	47 520 241	46 384 796	46 384 796
- Short-term Loans	-	-	-	-
- Current Portion of Long-term Liabilities	463 213	463 213	977 738	977 738
Measured at Fair Value	-	-	3 522 875	3 522 875
Payments Received in Advance	-	-	-	-
Bank Overdraft	-	-	3 522 875	3 522 875
Total Financial Liabilities	48 075 615	48 075 615	51 486 858	51 486 858
Total Financial Instruments	218 299 177	218 299 177	180 066 063	180 066 063
Unrecognised Gain / (Loss)		-		-

No Financial Instruments of the municipalitity have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-
Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-
Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-
Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

			2012 R	2011 R

30 June 2012

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Call Deposits	-	35 045 150	-	35 045 150
Bank Balances and Cash	-	6 388 646	-	6 388 646
Total Financial Assets	-	41 433 796	-	41 433 796
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Bank Overdraft	-	-	-	-
Total Financial Liabilities	-	-	-	-
Total Financial Instruments	-	41 433 796	-	41 433 796

30 June 2011

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Call Deposits	-	71 796 110	-	71 796 110
Bank Balances and Cash	-	7 293	-	7 293
Total Financial Assets	-	71 803 402	-	71 803 402
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Payments Received in Advance	-	-	-	-
Bank Overdraft	-	3 522 875	-	3 522 875
Total Financial Liabilities	-	3 522 875	-	3 522 875
Total Financial Instruments	-	68 280 527	-	68 280 527

40.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 19 and the Statement of Changes in Net Assets.

Gearing Ratio

	2012 R	2011 R
The gearing ratio at the year-end was as follows:		
Debt	555 374	5 102 062
Cash and Cash Equivalents	(6 388 646)	(7 293)
Net Debt	(5 833 272)	5 094 769
Equity	1 264 130 547	1 250 384 320
Net debt to equity ratio	**-0.46%**	**0.41%**

Debt is defined as Long- and Short-term Liabilities.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

	2012	2011
	R	R

40.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

40.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality’s income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality’s receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality’s reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 47.8 and 47.9 to the Annual Financial Statements.

40.6 Market Risk

The municipality’s activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality’s exposure to market risks or the manner in which it manages and measures the risk.

40.6.1 Foreign Currency Risk Management

The municipality’s activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

40.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

	2012	2011
	R	R

The municipality limits its counterparty exposures from its money market investment operations by primarily dealing with First National Bank and Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

40.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by primarily dealing with First National Bank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

	2012 R	2011 R
	2012 R	**2011 R**
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Fixed Deposit Investments	12 587 802	11 777 283
Consumer Debtors	165 860 492	156 806 897
Other Debtors	32 379 015	32 978 721
Bank, Cash and Cash Equivalents	44 401 236	71 149 754
Maximum Credit and Interest Risk Exposure	**255 228 544**	**272 712 655**

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

	%	%
Consumer Debtors:		
- Household	96.96%	101.28%
- Industrial / Commercial	11.13%	11.63%
- National and Provincial Government	12.27%	12.82%
Other Debtors:		
- Other not Classified	1.25%	1.65%
Total Credit Risk	**121.62%**	**127.38%**

Receivables from Exchange Transactions		
Counterparties without external credit rating:-		
Group 1	11 981 610	11 471 954
Group 2	1 730 464	2 240 119
	13 712 074	13 712 074
Total Receivables from Exchange Transactions	**13 712 074**	**13 712 074**
Receivables from Non-exchange Transactions		
Group 1	16 594 379	16 594 379
Total Receivables from Non-exchange Transactions	**16 594 379**	**16 594 379**

Credit quality Goupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

40 FINANCIAL INSTRUMENTS (Continued)

40.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 43 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
30 June 2012								
Non-interest Bearing		0.00%	47 520 241	47 520 241	-	-	-	-
Variable Interest Rate Instruments		8.08%	-	-	-	-	-	-
Fixed Interest Rate Instruments		5.00%	-	-	-	-	-	-
			47 520 241	**47 520 241**	**-**	**-**	**-**	**-**
30 June 2011								
Non-interest Bearing		0.00%	46 384 796	46 384 796	-	-	-	-
Variable Interest Rate Instruments		8.08%	(3 522 875)	(3 522 875)	-	-	-	-
Fixed Interest Rate Instruments		5.00%	-	-	-	-	-	-
			42 861 921	**42 861 921**	**-**	**-**	**-**	**-**

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
30 June 2012								
Non-interest Bearing		0.00%	57 413 222	57 413 222	-	-	-	-
Variable Interest Rate Instruments		0.00%	41 426 504	41 426 504	-	-	-	-
Fixed Interest Rate Instruments		134.98%	15 555 242	15 555 242	-	-	-	-
			114 394 967	**114 394 967**	**-**	**-**	**-**	**-**
30 June 2011								
Non-interest Bearing		0.00%	41 338 608	41 338 608	-	-	-	-
Variable Interest Rate Instruments		0.00%	71 796 110	71 796 110	-	-	-	-
Fixed Interest Rate Instruments		169.28%	14 646 510	14 646 510	-	-	-	-
			127 781 228	**127 781 228**	**-**	**-**	**-**	**-**

40.9 Effective Interest Rates and Repricing Analysis

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income-earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

30 June 2012

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
FIXED RATE INSTRUMENTS								
Held-to-maturity Investments	**7**		**11 777 283**	**-**	**-**	**-**	**-**	**-**
Secured Bank Facilities	**18**		**-**	**-**	**-**	**-**	**-**	**-**
Unsecured Bank Facilities	**18**		**-**	**-**	**-**	**-**	**-**	**-**
Total Fixed Rate Instruments			**11 777 283**	**-**	**-**	**-**	**-**	**-**
VARIABLE RATE INSTRUMENTS								
Short-term Investment Deposits	**7**		38 012 590	494 841 970	-	-	-	-
Bank Balances and Cash	**7**		6 388 646	47 127 950	-	-	-	-
Total Fixed Rate Instruments			**44 401 236**	**541 969 920**	**-**	**-**	**-**	**-**

30 June 2011

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
FIXED RATE INSTRUMENTS								
Held-to-maturity Investments	**7**		**11 777 283**	**-**	**-**	**-**	**-**	**-**
Secured Bank Facilities	**18**		**-**	**-**	**-**	**-**	**-**	**-**
Unsecured Bank Facilities	**17**		**-**	**-**	**-**	**-**	**-**	**-**
Total Fixed Rate Instruments			**11 777 283**	**-**	**-**	**-**	**-**	**-**
VARIABLE RATE INSTRUMENTS								
Short-term Investment Deposits	**7**		74 665 337	262 788 944	-	-	-	-
Bank Balances and Cash	**7**		(3 515 583)	31 245 683	-	-	-	-
Total Fixed Rate Instruments			**71 149 754**	**294 034 627**	**-**	**-**	**-**	**-**

40.10 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

	2012	2011
	R	R

41 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

Cape Joint Pension Fund:
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011. The scheme both operates a Defined benefit and Defined contribution scheme

Defined Benefit Scheme
The contribution rate payable is under the defined benefit section is 27%, 9% by the members and 18% by their councils. The actuarial valuation report at 30 June 2011 disclosed an actuarial valuation amounting to R2 971 150 million, with a net accumulated deficit of R58 935 million, with a funding level of 98.1%.
Defined Contribution Scheme
The actuarial valuation report at 30 June 2011 indicated that the defined contribution scheme of the fund is in a sound financial position, with a assets amounting to R 386 570 million, net investment reserve of R15 285 million and a funding level of 104.1%.

Cape Joint Retirement Fund:
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R9 930,837 (30 June 2010: R7 740,205) million, with funding levels of 100,3% and 116,9% (30 June 2010: 99,9% and 100,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:
The scheme is subject to an actuarial valuation every three years. The last statutory valuation was performed as at 30 June 2009. The latest interim valuation was performed as at 30 June 2010.

The interim valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R1 483, 786 381 (30 June 2009: R1 123. 672 020) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

	2012	2011
	R	R

SALA Pension Fund:
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R8 015 (30 June 2010 R7 110,3) million, with funding levels of 98,1% (30 June 2010: 95,9%) and a nett surplus of . The contribution rate paid by Council (19,18%) is sufficient to fund the benefits accruing from the fund in the future.

Surplus/Deficit - previously R307,6 million deficit.

SAMWU Pension Fund:
The SAMWU National Provident Fund is a defined contribution scheme. The contribution rate paid by the members (5%) and council (12%) is sufficient to fund the benefits accruing from the fund in the future. The last actuarial valuation of the fund was performed at 30 June 2005 and the fund was certified as being in a financially sound position. The next statutory valuation is due not later than 30 June 2008. Valuation not yet received.

The contribution rate paid by the members (7,50%) and Council (18,00%) is sufficient to fund the benefits accruing from the fund in the future.
No further details could be obtained for the fund and of any subsequent valuations performed.

Government Employees Pension fund
The scheme is subject to an actuarial valuation every three year. The last statutory valuation was performed as at 31 March 2010.

The statutory valuation performed as at 31 March 2010 revealed that the assets of the fund amounted to R801 004 million (31 March 2008: R707 042 million) million, being fully funded (31 March 2008: 100%) . The contribution rate paid by the members (7,50%) and the employers (13 %) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Gratuity Fund:
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The valuation performed as at 30 June 2010 revealed that the market value of the fund was R9 774,1 (30 June 2009: R8 248,8) billion. The contribution rate payable is 7,50% by the member and 22,00% by the employer. The fund was certified to be in sound financial condition as at 30 June 2007.

National Fund for Municipal Workers:
The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 1 July 2008.

The statutory valuation performed as at 1 July 2008 revealed that the fund had a deficit of R6,3 (1 July 2007: surplus R9,5) million, with a funding level of 99,8% (1 July 2007: 100,3%). The contribution rate paid by the members (2,00% to 7,00%) and the municipalities (2,00% to 7,00%) is sufficient to fund the benefits accruing from the fund in the future, and the actuary was satisfied that the fund will continue to be able meet it's liabilities.

Liberty Life Pension Fund:
No details could be provided for the fund and of any valuation performed.

SANLAM Annuity Fund:
No details could be provided for the fund and of any valuation performed.

SANLAM Retirement Fund:
No details could be provided for the fund and of any valuation performed.

None of the above mentioned plans are State Plans.

42 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

42.1 Services rendered to Related Parties

The municipality did not render any services during the year to anyone that can be considered as a related party.

42.2 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

42.3 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 26 and 27 respectively, to the Annual Financial Statements.

42.4 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

	2012 R	2011 R
	2012 R	2011 R

43 CONTINGENT LIABILITIES

	2012 R	2011 R
43.1 Court Proceedings:	**6 156 599**	**49 953 311**
Breach of contract claim by a contractor - the municipality disputes this claim		0
Liability for damages allegedly resulting from overflowing conservancy tank in Alicedale		0
Liability for damages allegedly caused by powerlines collapsing onto telephone lines		56 000
Liability for damages allegedly caused by faulty electrical apparatus		24 000
Liability for damages allegedly caused by accident CM Martin and Municipal employee.		81 252
SALA Pension fund - Increases in contributions without consultation with municipality.		300 000
SALA Pension fund - Claim of non-payment of increased fund premiums (File 1)	500 000	500 000
SALA Pension fund - Claim arose from death of member of pension fund.		200 000
Cape Joint Pension Fund - Potential liability due to shortfall on fund.		0
Prudence Jane Ruck (Erf 2190) (Prudence Jane Ruck / SW Fitzhenry, HR Fitzhenry)	150 000	350 000
SW Fitzhenry		600 000
John B Scott Attorney's - Accident through Grahamstown towards N2		203 400
Divan Bellingham Anglo Africa Street Clinic (Eric & Karina o.b.o. Divan Bellinghan Anglo Africa Street Clinlic)	150 000	70 000
P. Naidoo		0
Zingiswa Vivian - Accident due to pot holes on the road (Zingiswa Vivian Nontshinga, Mkhululi)	450 000	500 000
VDZ Construction - Tender awarded to Master Pave CC t/a MG Construction		27 523 675
VDZ Construction	250 000	
Give Ziyawa Construction CC - Contract cancellation		18 697 923
Give Ziyawa Construction CC - Breach of contract. Summons received 19/08/2010.	279 076	
Accused Traffic Officer was charged with wilful and negligent issue of a learner's licenses		150 000
NY Duda - Claim arose when vehicle driven by Ndolo crashed into Plaintiff's house		100 000
Makana Municipality vs Preston		485 572
Preston	450 000	
Bell Oak Investments	180 000	111 490
Pumza Nano	100 000	
The Albany and Bathurst Farmer's League	100 000	
Makana Municipality vs Councillors - Garnishee Orders	150 000	
Ms Nduda	150 000	
Mrs Martin	150 000	
Prudence Jane Ruck	100 000	
Mthombo Resorts	250 000	
Phumi Trading CC	200 000	
Beer Properties	200 000	
Tekom SA - Liability for damages caused to Telkom power line by faulty electrical apparatus	199 445	
Erasmus, Leon - Overflow of Sewer Tank on Claimant's Property	114 008	
Bowles, Adrian - Plaintiff sued Municipality for malicious prosecution (Traffic Officer Terence Bafo arrested pl	93 556	
Eviction - Illegal occupiers invaded land earmarked by Municipality for it's own purposes	116 066	
Bateson and Konstant - Liability for damages for alleged failure/refusal to empty conservancy tank.	504 818	
Mubesko Africa CC - Unlawful Procurement. Opinion required on whether Supply Chain Management Policy	390 000	
Uhambano Sports Academy - Unlawful Procurement. Opinion required on whether Supply Chain Manageme	390 000	
Montla Labour Court Review - Liability for damages allegedly caused by a post level dispute with the employe	249 760	
Xamleko, Kaiser - Salary scale disagreement	289 870	

44 CONTINGENT ASSETS

	2012 R	2011 R
44.1 Insurance Claims:	**311 188**	**-**
(i) Lost / Damaged Assets:	-	-

The municipality has a claims outstanding against its Insurers for lost and/or damaged assets. The management believe that it is probable that the claims will be successful and that compensation of R311 188 will be recovered.

	2012 R	2011 R
44.2 Claim on guarantee:	**-**	**461 700**

	2012	2011
	R	R

45 IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any In-kind Donations and Assistance during the year under review.

46 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the year under review.

47 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2012.

48 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Changes in Accounting Policies (Note N/A) and Prior Period Errors (Note N/A).

APPENDIX B
MAKANA MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying	Budget
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	Value	Additions 2012
	R	R	R	R	R	R	R	R	R	R	R	R	R
Land and Buildings													
Land:													
Land: Developed	95 782 950	-	-	-	-	95 782 950	-	-	-	-	-	95 782 950	-
Land: Undeveloped	346 294 013	-	-	-	-	346 294 013	-	-	-	-	-	346 294 013	-
Buildings:													
Total Buildings	309 795 506	285 343	288 138	-	-	310 368 987	18 517 528	8 973 179	-	-	27 490 707	282 878 280	-
	751 872 469	**285 343**	**288 138**	**-**	**-**	**752 445 950**	**18 517 528**	**8 973 179**	**-**	**-**	**27 490 707**	**724 955 243**	**-**
Infrastructure													
Airports:													
Airports and Airfields	3 954 500	-	-	-	-	3 954 500	429 885	206 418	-	-	636 303	3 318 197	-
													-
Electricity:													-
Total Electricity	125 411 536	1 261 912	21 328 682	3 735 779	-	151 737 909	11 895 477	5 759 456	-	-	17 654 932	134 082 977	-
Roads and Transport:													
Total Raods and Transport	208 808 055	5 444 833	16 037 761	664 102	-	230 954 752	24 834 388	12 561 962	-	-	37 396 350	193 558 402	-
													-
Sanitation:													-
Sanitation and Solid Waste	691 853	-	-	-	-	691 853	48 275	28 030	-	-	76 305	615 548	-
													-
Sewerage:													-
Total Sewerage	81 391 241	1 526 074	23 305 728	681 639	-	106 904 681	7 656 970	3 748 978	-	-	11 405 949	95 498 733	-
Water:													-
Total Water	70 841 521	78 306	11 560 790	-	-	82 480 616	10 878 517	5 044 396	-	-	15 922 913	66 557 703	-
	491 098 706	**8 311 125**	**72 232 960**	**5 081 520**	**-**	**576 724 312**	**55 743 512**	**27 349 240**	**-**	**-**	**83 092 752**	**493 631 560**	**-**
Community Assets													
Cemeteries	13 315 477	-	-	-	-	13 315 477	989 938	503 202	-	-	1 493 141	11 822 336	-
All Other Community Assets	39 697 699	2 940 276	11 764 485	-	-	54 402 460	3 384 354	1 679 392	-	-	5 063 746	49 338 713	-
	53 013 176	**2 940 276**	**11 764 485**	**-**	**-**	**67 717 936**	**4 374 293**	**2 182 595**	**-**	**-**	**6 556 887**	**61 161 049**	**-**
Leased Assets													
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Assets													
Total Other Assets	25 784 930	9 256 992	-	-	-	35 041 922	5 892 820	4 038 597	-	-	9 931 417	25 110 505	-
	25 784 930	**9 256 992**	**-**	**-**	**-**	**35 041 922**	**5 892 820**	**4 038 597**	**-**	**-**	**9 931 417**	**25 110 505**	**-**
Total	**1 321 769 282**	**20 793 735**	**84 285 583**	**5 081 520**	**-**	**1 431 930 120**	**84 528 153**	**42 543 610**	**-**	**-**	**127 071 763**	**1 304 858 357**	**-**
						0.00					0.00	0.00	

APPENDIX D

MAKANA MUNICIPALITY

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

2011 Actual Income	2011 Actual Expenditure	2011 Surplus/ (Deficit)	Description	2012 Actual Income	2012 Actual Expenditure	2012 Surplus/ (Deficit)
R	R	R		R	R	R
3 441 302	16 137 962	(12 696 660)	Executive and Council	3 049 727	19 069 878	(16 020 151)
53 015 897	112 948 692	(59 932 795)	Finance and Administration	55 255 801	85 499 865	(30 244 064)
5 791 141	8 445 953	(2 654 812)	Planning and Development	2 796 521	9 107 187	(6 310 666)
4 392 460	8 286 399	(3 893 939)	Health	1 292 579	5 219 130	(3 926 551)
760 186	4 980 064	(4 219 878)	Community and Social Services	503 878	4 403 793	(3 899 915)
(2 324)	41 386	(43 710)	Housing	-	33 790	(33 790)
1 238 996	11 224 585	(9 985 589)	Public Safety	622 223	12 769 581	(12 147 358)
5 716 897	2 658 770	3 058 127	Sport and Recreation	14 750 127	3 006 921	11 743 206
18 266	3 121 314	(3 103 048)	Environmental Protection	23 660	3 495 914	(3 472 254)
51 781 658	35 921 481	15 860 177	Waste Management	52 186 050	37 341 041	14 845 009
11 937 339	12 529 386	(592 047)	Roads and Transport	8 936 764	14 328 156	(5 391 392)
60 151 108	42 414 284	17 736 824	Water	76 019 590	44 499 824	31 519 766
99 016 056	77 064 231	21 951 826	Electricity	101 467 151	91 596 751	9 870 401
10 736	202 847	(192 111)	Other	7 332	279 259	(271 927)
297 269 718	**335 977 353**	**(38 707 635)**	Sub-Total	**316 911 404**	**330 651 090**	**(13 739 685)**
			Revenue Foregone			
297 269 718	**335 977 353**	**(38 707 635)**	**Total**	**316 911 404**	**330 651 090**	**(13 739 685)**

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:
(a) is required by a Standard of GRAP; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1. 2. 1 Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

1. BASIS OF PRESENTATION (continued)

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

1. 2. 1 Revenue Recognition (continued)

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1. 2. 2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on *Financial Assets Classification* and Accounting Policy 6.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement* .

1. 2. 3 Impairment of Financial Assets

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement* , and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

1. 2. 4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

1. 2. 5 Impairment: Write down of Property, Plant and Equipment and Inventories

Accounting Policy 3.9 on *PPE - Impairment of assets* and Accounting Policy 4.2 on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management. During the year the estimated impairments to Property plant and equipment amounted to R2 004 432, whilst no impairments were made to intangible assets or inventory.

1. 2. 6 Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to Note 10 of the accounting policy notes to the Annual Financial Statements.

1. 2. 7 Defined Benefit Plan Liabilities

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

1. 2. 8 Provisions and contingent liabilities

Provision for Rehabilitation of Refuse Landfill Sites
The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 5% (2010: 5.5%) and discounted to the present value:
a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 11.14% (2010: 11.3475%).
b) For landfill sites with a remaining operating life of greater than 5 years, at the average long-term treasury bond rate 4.09% (2010: 11.3475%).
Provision for Rehabilitation of XXX River
The provision is in relation to the Municipality's obligation to address the environmental pollution of the XXX River. The provision is based on the estimated costs to carry out the rehabilitation work of a wetland beside the XXX River.

1. 2. 9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained in the notes to the annual financial statements

1. 3 PRESENTATION CURRENCY

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

1. 4 GOING CONCERN ASSUMPTION

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

1. BASIS OF PRESENTATION (continued)

1. 5 OFFSETTING

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

1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

GRAP 18 Segment Reporting - issued March 2005
GRAP 20 Related Party Disclosures (Revised)
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - issued October 2009
GRAP 105 Transfers between entities under common control - issued November 2010
GRAP 106 Transfers between entities not under common control - issued November 2010
GRAP 107 Mergers - issued November 2010

The Minister of Finance annouced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in he standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the
Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:
Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

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

AS an alternative the following disclosure can be included instead

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.
Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the entity. The precise impact of this on the financial statements of the Municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

GRAP 20 – Related party disclosures
The effective date of the standard has not been determined yet. The standard of GRAP on related parties will replace the IPSAS 20 standard on related party disclosure currently used. No significant impact on the financial statements of the Municipality is expected.

GRAP 21 – Impairment of Non-Cash Generating Assets
This standard becomes effective for years beginning on or after 1 April 2012 and will only be formally adopted on that date. It determines the requirements and provides additional guidance on how to impair non-cash generating assets, being assets that are not held to generate any sort of commercial benefit. In particular, it provides guidance on how to determine an asset's recoverable service amount in the absence of any future cash flows. The Municipality has considered the principles set by this standard in developing its general asset impairment policy and therefore does not expect any significant changes in how assets will be accounted for or disclosed when the standard becomes effective.

GRAP 23 – Revenue from Non-Exchange Transactions
This standard becomes effective for years beginning on or after 1 April 2012 and will only be formally adopted on that date. It determines the requirements and provides additional guidance on how to account for revenue from non-exchange transactions. In particular, it requires the entity to recognise revenue from grants received, to the extent that there are no further conditions attached to the grant that give rise to an obligation to repay. Most of the grants received by the Municipality are conditional grants and revenue is currently only recognised when the conditions associated with the respective grants are met and therefore it is not expected to have a significant impact on the financial statements when it becomes effective.

GRAP 24 – Presentation of Budget Information in the Annual Financial Statements
This standard becomes effective for years beginning on or after 1 April 2012. It determines the specific requirements and provides additional guidance on how to present a comparison between budgeted and actual amounts in the financial statements, as required by GRAP 1. This is expected to add significantly to the level of disclosures currently being provided.

GRAP 25 – Employee Benefits
This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected. This standard does not yet have an effective date.

GRAP 26 – Impairment of cash-generating assets
This standard becomes effective for years beginning on or after 1 April 2012 and will not be early adopted. It determines the requirements and provides additional guidance on how to impair cash generating assets, being assets that are expected to generate a commercial benefit. The standard requires a similar treatment to that currently required by IAS 36, the principles of which have already been incorporated into the accounting policies of the Municipality in the prior year. As a result, the impact of this standard becoming effective is expected to be limited.

GRAP 103 – Heritage Assets
This standard becomes effective for periods beginning on or after 1 April 2012 and has not been early adopted. It determines requirements for accounting for heritage assets. Heritage assets are defined as assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The Municipality currently recognises all its heritage assets at cost and includes heritage assets with property, plant and equipment. The key impact of GRAP 103 will therefore only be changes in disclosures.

GRAP 104 – Financial Instruments
This standard will introduce some relatively significant changes when compared to IAS 39, especially in the way financial assets are classified and treated. The key principles established by this standard have already been utilised to develop appropriate accounting policies for accounting for financial instruments and therefore it is not expected to have a significant impact on the financial statements when it becomes effective (refer accounting policy Note 12). This standard becomes effective for periods beginning on or after 1 April 2012 and has not been early adopted.

GRAP 105 – Transfer of Function Between Entities Under common Control
This standard provides the accounting treatment for transfers of functions between entities under common control. However the impact on the Municipality's financial statements is not expected to be significant due to the fact that the Municipality rarely enters into such transactions. The standard is only expected to have an impact on the Municipality in respect of any future transfers of functions. This standard does not yet have an effective date.

GRAP 106 – Transfer of Function Between Entities Not Under common Control

This standard deals with other transfers of functions (i.e. between entities not under common control) and requires the entity to measure transferred assets and liabilities at fair value. It is unlikely that the Municipality will enter into any such transactions in the near future. This standard does not yet have an effective date.

GRAP 107 – Mergers

This standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the Municipality in the foreseeable future. This standard does not yet have an effective date.

2. ACCUMULATED SURPLUS

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

2. 1 Housing development fund/Housing operating account

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:
• The Housing Development Fund is cash-backed, and invested in accordance with the investment policy of the Entity.
• The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the MEC for Human Settlements.
• Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
• Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

2. 2 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/ (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

2. 3 Other Reserves

The Entity creates and maintains reserves in terms of specific requirements.

2. 3 .1 Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.
The following provisions are set for the creation and utilisation of the CRR:
• The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
• The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
• Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
• If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.
Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

2. 3 .2 Capitalisation Reserve

On the implementation of GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.
The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit.
When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

2. 3 .3 Insurance reserve

A general insurance reserve has been established, and subject to reinsurance where deemed necessary, it covers claims that may occur. Premiums are charged to the respective services, taking into account claims history and replacement value of the insured assets.
Reinsurance premiums paid to external reinsurers are regarded as an expense, and are shown as such in the Statement of Financial Performance. The net surplus or deficit on the insurance operating account is transferred to or from the insurance reserve via the Statement of Changes in Net Assets.
The balance of the self-insurance reserve is invested in short-term cash investments. Interest earned on the insurance reserve is recorded as interest earned in the Statement of Financial Performance, and is transferred to the insurance reserve via the Statement of Changes in Net Assets as a contribution.
An actuarial valuation is obtained each year to assess the adequacy of the insurance reserve at year-end.

2. 3 .4 Compensation for occupational injuries and diseases (COID) reserve

The Entity has been exempted from making contributions to the Compensation Commissioner for occupational injuries and diseases in terms of Section 84 of the COID Act (Act No. 130 of 1993).
The certificate of exemption issued by the Commissioner, and as prescribed by the COID Act, requires that the Entity deposits cash and/or securities with the Commissioner, the market values of which in aggregate shall not be less than the capitalised value of the continuing liability of the Entity as at 31 December of each year.
The continuing liability is that of annual pensions, the capitalised value of which is determined on the basis of an actuarial determination prescribed by the Commissioner. A COID reserve has been established to equate to the value of the continuing liability. The market value of the securities is determined annually by the Commissioner and the Entity is required to meet any shortfall in the aggregate value of the securities as at 31 December. Monthly pensions are funded by transferring funds out of the reserve to the expense account in the Statement of Financial Performance.

3. PROPERTY, PLANT AND EQUIPMENT

3. 1 Initial Recognition

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

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

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

3. 1 Initial Recognition (Continued)

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

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

3. 2 Subsequent Measurement

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

Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Infrastructure assets are stated at the depreciated replacement cost.

Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Previously, land and buildings were carried at cost less accumulated depreciation and impairment losses. These changes are recorded as a change in accounting policy in the Statement of Financial Performance.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.
When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

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

3. 3 Depreciation

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

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

Refer to the Asset Management Policy for the Useful Lives of Assets.

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

3. 4 Incomplete Construction Work

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

3. 5 Finance Leases

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

3. PROPERTY, PLANT AND EQUIPMENT (continued)

3. 1 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3. 2 Infrastructure Assets

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

3. 3 Housing Development Fund Assets

The Housing Development Fund contains letting schemes that is included in Council's Property Plant and Equipment. All surpluses generated from the letting schemes are transferred to the Housing Development Fund.

3. 4 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

Transitional provisions

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2011 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

4. Heritage Assets

` Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.
Subsequent to measurement, heritage assets are carried at cost less impairment losses.

4. 1 Initial Recognition

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

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

` **heritage assets (continued)**

4. 1 Initial Recognition (Continued)

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

4. 2 Subsequent Measurement

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

Subsequently all heritage assets are measured at cost, less accumulated impairment losses.

4. 3 Derecognition of Heritage assets

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.
Transitional provisions

The municipality utilised the transitional provisions under Directive 4, which allows 3 year for the measurement of heritage assets.

5. INTANGIBLE ASSETS

5. 1 Initial Recognition

Identifiable non–monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP 21 / GRAP 26.

5. INTANGIBLE ASSETS (continued)

5. 1 Initial Recognition (continued)

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the
cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

5. 2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

After initial recognition, intangible assets are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. If the intangible asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to the revaluation surplus.
However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same intangible asset previously recognised in surplus or deficit.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The usefull lives per category of intangible assets are detailed below:

	Years
Intangible asset	
Software	3
Website	5

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

5. 3 Derecognition

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Transitional provisions

Intangible assets recognised in terms of GRAP 102 have been presented for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

6. INVESTMENT PROPERTY

6. 1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

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

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

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

6. INVESTMENT PROPERTY (continued)

6. 2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

6. .2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation (1 July 2009). Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

6. 3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

6. 4 Transitional Provisions

Investment properties recognised in terms of GRAP 16 have been presented for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 4.

7. IMPAIRMENT OF ASSETS

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

7. 1. Impairment of Cash generating assets

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

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

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset"

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at at revalued amount in reduces the revaluation surplus for that asset. The decrease
shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

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

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

7. 2. Impairment of Non-Cash generating assets

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

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Transitional provisions

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2011 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

8. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement . The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

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

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability 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.

Amortised cost

Amortised cost 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 for impairment or uncollectibility.

8. 1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

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

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

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

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

8. FINANCIAL INSTRUMENTS (continued)

8. 1 Financial Assets - Classification (continued)

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

8. 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

▪ Long-term Liabilities	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Certain Other Creditors (see note 9)	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Bank Overdraft	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Short-term loans	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Consumer Deposits	Financial liabilities at fair value through profit and loss

There are three main categories of *Financial Liabilities* , the classification determining how they are measured. Financial liabilities may be measured at:
(i) Fair value through profit or loss; or
(ii) Other financial liabilities (Financial liabilities measured at amortised cost)
(iii) Financial guarantee contract

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

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

8. 3 Initial and Subsequent Measurement

8. 3. 1 Financial Assets:

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

Financial assets at fair value through profit or loss are initially and subsequently recognised at fair value and changes in fair value recognised directly through profit or loss.

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

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

8. 3. 2 Financial Liabilities:

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Financial guarantee contract

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.
The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

8. 4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

8. FINANCIAL INSTRUMENTS (continued)

8. 4 Impairment of Financial Assets (continued)

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

Financial assets carried at amortised cost

Accounts receivables encompassess long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, 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 through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

8. 5 Derecognition of Financial Assets

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

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

8. 6 Derecognition of Financial Liabilities

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

The municipality recognises the difference between the carrying amount of the 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, in the Statement of Financial Performance.

9. INVESTMENT IN JOINT VENTURES

A joint venture is a contractual arrangement whereby the Municipality and the other parties undertake an economic activity that is subject to joint control. Interests in jointly controlled entities are stated at cost.

10. INVENTORIES

10. 1 Initial Recognition

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

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

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

10. 2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Water and purified effluent are valued by using the (**FIFO / weighted average)** method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold propeties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories

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

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

Transitional provisions

The net realisable value of inventory recognised in terms of GRAP 12 have been disclosed for the financial year ended 30 June 2012 in accordance with the requirements of GRAP 12, GRAP 3 and ASB Directive 4.

11. NON-CURRENT ASSETS HELD-FOR-SALE

11. 1 Initial Recognition

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.

11. 2 Subsequent Measurement

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

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

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

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

12. REVENUE RECOGNITION

12. 1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

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

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

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

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

12. 2 Revenue from Exchange Transactions

12. 2. 1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

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

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

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

12. 2. 2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

12. 2. 3 Finance income

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

Interest earned on the following investments is not recognised in the Statement of Financial Performance:
▪ Interest earned on trust funds is allocated directly to the fund.
▪ Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

12. 2. 4 Tariff Charges

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

12. 2. 5 Income from Agency Services

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

12. 2. 6 Sale of Goods (including Houses)

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

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

12. 2. 7 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

12. 2. 8 Dividends

the substance of the relevant agreement, where applicable.

12. 2. 9 Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

12. 3 Revenue from Non-exchange Transactions

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.
A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

12. 3. 1 Rates and Taxes

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

12. 3. 2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

12. 3. 3 Public contributions

(Policy where an entity continues to only apply GRAP 9 and and paragraphs .29 to .35, .39 to .54, .61(b)(iii), (vi), (viii), (ix) and .62 (a) & (b

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

(Alternative Acc policy where a Municipality where GRAP 23 has been adopted, or where GRAP 23 has been used to formulate an accounting policy with GRAP 9 and paragraphs .29 to .35, .39 to .54, .61(b)(iii), (vi), (viii), (ix) and .62 (a) & (b) of GAMAP 9 (as per GRAP 9.44)

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. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferror has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired in non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

12. 3. 4 Government Grants and receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional Grants and receipts

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

(Alternative Acc policy where a Municipality where GRAP 23 has been adopted, or where GRAP 23 has been used to formulate an accounting policy with GRAP 9 and paragraphs .29 to .35, .39 to .54, .61(b)(iii), (vi), (viii), (ix) and .62 (a) & (b) of GAMAP 9 (as per GRAP 9.44)

Conditional grants and receipts of a capital nature

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. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferror has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

12. 3. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

13. PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

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

Provision for Restructuring cost

met:

-
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken;
- when the plan will be implemented; and;

(b) The municipality 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.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

14. EMPLOYEE BENEFITS

14. 1 Short-term Employee Benefits

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

The municipality treats its provision for leave pay as an accrual.

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

14. 2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

14. 2 1 Defined Contribution Plans

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

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The
contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

14. 3 Defined Benefit Plans

A **defined benefit plan** is a post- employment benefit plan other than a defined contribution plan.

14. 3. 1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the *"corridor method".* Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

14. 3. 2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

14. 3. 3 Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 47 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

14. 3. 4 Defined benefit pension plans

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Where the Municipality develops an accounting policy in accordance with GRAP 25, the treatment of actuarial gains and losses, as well as past service cost will be as follows:

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

15. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

15. 1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

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

Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

15. LEASES (continued)

15. 1 The Municipality as Lessee (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

15. 2 The Municipality as Lessor

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

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

15. 3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

16. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necassarry to prepare the qualifilyiing assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

17. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

18. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

19. UNAUTHORISED EXPENDITURE

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

20. IRREGULAR EXPENDITURE

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

21. FRUITLESS AND WASTEFUL EXPENDITURE

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

22. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

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

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

23. RELATED PARTIES

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

24. EVENTS AFTER THE REPORTING DATE

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

25. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions.
Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

26. COMPARATIVE INFORMATION

26. 1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and forms part of the Annual Financial Statements.

26. 2 Prior year comparatives

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

26. 3 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include
budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

27. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

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

28. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

29. CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

▪ Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a spesific standard of GRAP.
▪ Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
▪ Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
▪ Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
▪ Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.