

Emadlangeni Municipality  
Annual Financial Statements  
for the year ended 30 June 2011

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

---

<b>Legal form of entity</b>	Municipality
<b>Nature of business and principal activities</b>	Local Authority
<b>Councillors</b>	
Mayor	Clr J.G. Zikhali-(From June 2011) Clr BC Mabaso-(Up to February 2011)
Councillors	Clr B.M. Phengane(From June 2011) Clr M.A. Gama(From June 2011) Clr P Collins(From June 2011) Clr S Nkomonde(From June 2011) Clr T.V. Buthelezi(From June 2011) Clr V.C. Ndlovu(From June 2011) Clr JC Msibi(Up to May 2011) Clr LJ Vundla(Up to May 2011) Clr ME Khoza(Up to May 2011) Clr LN Williams(November 2010-May 2011) Clr SB Harber(Up to May 2011) Clr VC Ntshangase(Up to May 2011)
<b>Grading of local authority</b>	1
<b>Accounting Officer</b>	V.M Kubeka
<b>Chief Finance Officer (CFO)</b>	G.P.N. Ntsangase
<b>Registered office</b>	34 Voor Street Utrecht 2980
<b>Business address</b>	34 Voor Street Utrecht 2980
<b>Postal address</b>	PO Box 11 Utrecht Kwa-zulu Natal 2980
<b>Bankers</b>	Standard Bank of South Africa Newcastle
<b>Auditors</b>	Auditor General

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Index

---

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Report of the Auditor General	3 - 8
Approval of Annual Financial Statements	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Accounting Policies	12 - 25
Notes to the Annual Financial Statements	26 - 51
Appendices	
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	56
Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	57

### Abbreviations

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Officer's Responsibilities and Approval

---

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

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

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

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

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

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

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 7 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

---

**Accounting Officer**



## Report of the Auditor General

---

To the Provincial Legislature of Emadlangeni Municipality

### Report on the Financial Statements

I have audited the accompanying annual financial statements of the Emadlangeni Municipality which comprise the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 7 to 51.

### Responsibility of the Accounting Officer for the annual financial statements

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] and the [Companies Act, 1973 (Act No. 61 of 1973)] [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section xx of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Basis of accounting

The Entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note xx] [note xx to the financial statements].

### Opinion

## Report of the Auditor General

---

In my opinion the annual financial statements present fairly, in all material respects, the financial position of Emadlangeni Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the PFMA/MFMA (if the entity falls within the scope of the PFMA/MFMA) and Companies Act, 1973 (if the entity falls within the scope of the Companies Act) or section xx of the entity's enabling legislation (if the entity does not fall within the scope of the PFMA/MFMA)].

**Auditor General**  
**Registered Auditors**



# **Emadlangeni Municipality**

Annual Financial Statements for the year ended 30 June 2011

## **Approval of Annual Financial Statements**

---

I am responsible for the preparation of these annual financial statements, which are set out on pages 10 to 44, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements 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.

---

**Municipal Manager:**

August 31, 2011

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Loans and receivables	7	53,731	31,968
Other receivables	10	204,660	54,369
VAT receivable	11	1,291,460	1,565,396
Consumer debtors	12	3,132,710	3,628,955
Financial assets - Investments	9	12,710,300	8,922,337
Cash and cash equivalents	13	1,833,735	3,035,852
		<b>19,226,596</b>	<b>17,238,877</b>
<b>Non-Current Assets</b>			
Biological assets	3	2,534,300	1,217,980
Investment property	4	1,784,708	1,890,208
Property, plant and equipment	5	54,024,836	50,040,747
Intangible assets	6	97,147	101,031
Loans and receivables	7	165,340	165,197
		<b>58,606,331</b>	<b>53,415,163</b>
<b>Total Assets</b>		<b>77,832,927</b>	<b>70,654,040</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	14	-	86,449
Trade and other payables	18	776,055	4,797,382
Consumer deposits	19	141,673	128,957
Unspent conditional grants and receipts	15	10,542,578	7,258,379
Provisions	16	757,010	6,454,201
Short term portion of long term liabilities	17	36,358	33,036
		<b>12,253,674</b>	<b>18,758,404</b>
<b>Non-Current Liabilities</b>			
Provisions	16	6,313,000	-
Annuity loan	17	999,645	1,036,002
		<b>7,312,645</b>	<b>1,036,002</b>
<b>Total Liabilities</b>		<b>19,566,319</b>	<b>19,794,406</b>
<b>Net Assets</b>		<b>58,266,608</b>	<b>50,859,634</b>
<b>Net Assets</b>			
Accumulated surplus		58,266,608	50,859,633

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>			
Property rates	20	5,968,483	5,095,919
Service charges	21	9,592,446	7,786,592
Property rates - penalties imposed and collection charges		177,614	214,008
Rental of facilities and equipment		1,346,522	1,306,340
Fines		164,737	116,980
Licences and permits		755,978	793,237
Government grants and subsidies	22	15,557,419	16,873,615
Sundry income		461,201	493,204
Fees earned		89,170	139,083
Other income		566,339	-
Interest received - investment	28	512,845	440,725
<b>Total Revenue</b>		<b>35,192,754</b>	<b>33,259,703</b>
<b>Expenditure</b>			
Personnel	25	(12,579,968)	(10,435,457)
Remuneration of councillors	26	(1,183,036)	(1,290,789)
Depreciation and amortisation	30	(1,720,287)	(1,442,297)
Finance costs	31	(118,521)	(129,736)
Debt impairment	27	(1,046,885)	(1,565,520)
Repairs and maintenance		(1,250,844)	(1,311,801)
Bulk purchases	35	(6,143,247)	(5,257,017)
Grant expenses	34	(2,089,444)	(9,288,168)
General expenses	24	(2,969,868)	(1,769,468)
<b>Total Expenditure</b>		<b>(29,102,100)</b>	<b>(32,490,253)</b>
Fair value adjustments	29	1,316,320	-
<b>Surplus for the year</b>		<b>7,406,974</b>	<b>769,450</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Changes in Net Assets

	Accumulated (deficit) / surplus	Total net assets
Figures in Rand		
<b>Opening balance as previously reported</b>	- 45,605,292	45,605,292
Changes in net assets		
Surplus for the year	- 769,450	769,450
Grap conversion adjustments	- 367,235	367,235
Correction of previous misstatements(refer to note 38)	- 4,117,656	4,117,656
Total changes	- 5,254,341	5,254,341
<b>Balance at 01 July 2010 as restated</b>	- 50,859,634	50,859,634
Changes in net assets		
Surplus for the year	- 7,406,974	7,406,974
Total changes	- 7,406,974	7,406,974
<b>Balance at 30 June 2011</b>	- 58,266,608	58,266,608

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		16,821,078	19,017,406
Grants		18,841,617	16,416,098
Interest income		512,845	440,725
Other receipts		1,887,134	1,749,267
		<u>38,062,674</u>	<u>37,623,496</u>
<b>Payments</b>			
Employee costs		(13,560,195)	(11,573,339)
Suppliers		(13,972,286)	(5,399,995)
Finance costs		(114,819)	(114,745)
Grant expenditure		(2,089,444)	(7,336,629)
		<u>(29,736,744)</u>	<u>(24,424,708)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>8,325,930</u></b>	<b><u>13,198,788</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(5,508,596)	(9,438,660)
Purchase of other intangible assets	6	(86,396)	(3,801)
Proceeds/(Purchase) from sale of financial assets		(21,906)	9,018
Purchase of financial assets - investments		(3,787,963)	(791,662)
		<u>(9,404,861)</u>	<u>(10,225,105)</u>
<b>Cash flows from financing activities</b>			
Movement in annuity loan		(33,035)	(29,735)
Finance lease payments		(90,151)	(118,827)
		<u>(123,186)</u>	<u>(148,562)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,202,117)</b>	<b>2,825,121</b>
Cash and cash equivalents at the beginning of the year		3,035,852	210,732
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>1,833,735</u></b>	<b><u>3,035,853</u></b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act (Act 56 of 2003).

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

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

In adopting GRAP, the municipality has taken advantage of certain of the transitional provisions of Directive 4 which are available to low capacity municipalities. The application of these transitional provisions is detailed in each policy to which the Directive applies.

#### 1.1 Significant judgements and sources of estimation uncertainty

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

##### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

##### Allowance for doubtful debts

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### Directive 4

As allowed by the transitional provisions included in Directive 4, the following asset classes have not been measured in accordance with the relevant GRAP for the year ended June 30, 2011:

Inventories	(GRAP 12)
Property, plant and equipment	(GRAP 17)
Intangible assets	(GRAP 102)
Biological assets	(GRAP 101)
Investment property	(GRAP 16)

Management has estimated provisional amounts for each of these asset classes which are included in the statement of financial position. These amounts are subject to change once the measurement process has been completed, which is expected to occur by June 30, 2012.

### 1.2 Biological assets

The municipality recognises a biological asset or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less estimated point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives.

#### Directive 4

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities..

Biological assets have therefore not been recognised or measured in accordance with GRAP 101 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 17 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012.

### 1.3 Investment property

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

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

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

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

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

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.3 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

#### Directive 4

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities..

Investment property has therefore not been measured in accordance with GRAP 16 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012.

### 1.4 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired by the municipality at no cost, or for a nominal cost (ie a non exchange transaction), its cost is its fair value as at date of acquisition.

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

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

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

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

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

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.4 Property, plant and equipment (continued)

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

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

Work in progress

Work in progress is stated at historical cost. Depreciation only commences when the asset is ready for use.

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

Item	Average useful life
Land and building	30 years
Plant & equipment	2 - 10 years
Furniture and fixtures	5 - 7 years
Motor vehicles	5 years
Office Equipment	3 - 5 years
Infrastructure assets	10 - 20 years
Community assets	3 - 30 years
Finance leased assets	5 years

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

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

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

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

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

#### Directive 4

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Property, plant and equipment have therefore not been measured in accordance with GRAP 17 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 17 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012.

### 1.5 Site restoration and dismantling cost

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- c) if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

### 1.6 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially measured cost. Where an intangible asset is acquired by the municipality for no or nominal amount (ie a non-exchange transaction) the cost is deemed to be equal to the fair value of the asset on the date acquired. Where an intangible is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the assets(s) given up.

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

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

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

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

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

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

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.6 Intangible assets (continued)

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

#### Directive 4

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Intangible assets have therefore not been measured in accordance with GRAP 102 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 102 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012.

### 1.7 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

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

#### Initial recognition and measurement

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

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

Transaction costs are included in the initial measurement of the instrument.

#### Subsequent measurement

Loans and receivables and consumer debtors are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

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

#### Impairment of financial assets

At the end of each reporting period the municipality assesses all financial assets to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit.

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

#### Loans to employees

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.7 Financial instruments (continued)

These financial assets are classified as loans and receivables.

#### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Trade and other receivables are classified as loans and receivables.

#### Trade and other payables

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

#### Cash and cash equivalents and other financial assets

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

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

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

#### Derecognition

##### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.7 Financial instruments (continued)

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

#### Financial liabilities

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

#### Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.8 Leases

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

#### Finance leases – lessee

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

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

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

Any contingent rents are expensed in the period to which they relate. Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment.

#### Operating leases - lessor

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

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.8 Leases (continued)

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

#### Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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

### 1.9 Inventories

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

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

The amount of any write-down of inventories arising from a change in net realisable value is recognised in the statement of Financial Performance.

The cost of inventories comprises of all costs of purchase.

#### Directive 4

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Inventories have therefore not been measured in accordance with GRAP 12 or the accounting policy above. A “provisional” amount has been determined by management, which will be used until the GRAP 12 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.10 Impairment of assets

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

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

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

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

An impairment loss of assets carried at cost less any accumulated depreciation 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 cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods 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. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Impairment of assets has not been performed as the transitional provisions in Directive 4 relating to the exemption of measurement of all assets have been applied.

### 1.11 Employee benefits

#### Short-term employee benefits

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

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

#### Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against surplus or deficit in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are treated as defined contribution plans by the municipality. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds.

### 1.12 Provisions and contingencies

Provisions are recognised when:

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.12 Provisions and contingencies (continued)

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

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

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Commitments and Contingencies are disclosed in note 37.

### 1.13 Revenue from exchange transactions

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.

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

Service revenue is recognised by reference to the stage of completion of the transaction at statement of financial position date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured..

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.13 Revenue from exchange transactions (continued)

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

### Interest, royalties and dividends

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

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

### 1.14 Revenue from non-exchange transactions

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

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

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

### Measurement

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

### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

### Government grants and donations

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.15 Investment income

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

### 1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### 1.17 Comparative figures

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.18 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.19 Fruitless and wasteful expenditure

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

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

### 1.20 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 supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Use of estimates

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

### 1.22 Presentation currency

These Annual Financial Statements are presented in South African Rand.

### 1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP, and there is an intention to settle on a net basis.

### 1.24 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

### 1.25 Conditional Grants and receipts

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

### 1.26 Going concern assumption

The Annual Financial Statement have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### 2.2 Standards and interpretations issued, but not yet effective

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

GRAP 18	Segment reporting
GRAP 20	Related party disclosure
GRAP 25	Employee benefits
GRAP 104	Financial instruments
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

#### 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 entity. 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 entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

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

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

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

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

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

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

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

#### GRAP 25: Employee benefits

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

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

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

GRAP25 defines, amongst others, the following:

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

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

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

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

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

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

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

The standard prescribes recognition and measurement for:

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

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

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

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

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

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

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

### GRAP 104: Financial Instruments

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

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

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

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

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

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

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

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

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

### 3. Biological assets

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Cattle	335,000	-	335,000	129,500	-	129,500
Game	2,199,300	-	2,199,300	1,088,480	-	1,088,480
<b>Total</b>	<b>2,534,300</b>	<b>-</b>	<b>2,534,300</b>	<b>1,217,980</b>	<b>-</b>	<b>1,217,980</b>

#### Reconciliation of biological assets - 2011

	Opening balance	Gains or losses arising from changes in fair value	Closing Balance
Cattle	129,500	205,500	335,000
Game	1,088,480	1,110,820	2,199,300
	<b>1,217,980</b>	<b>1,316,320</b>	<b>2,534,300</b>

#### Reconciliation of biological assets - 2010

	Opening balance	Closing Balance
Cattle	129,500	129,500
Game	1,088,480	1,088,480
	<b>1,217,980</b>	<b>1,217,980</b>

#### Transitional provisions

##### Biological assets recognised at provisional amounts

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Biological assets have therefore not been recognised or measured in accordance with GRAP 101 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 101 measurement process is completed. An aerial game count was conducted by Bass Air Aviation in June 2011 and their fair value estimates were obtained from current market value trends in the industry. It is anticipated that the measurement process will be completed by June 30, 2012.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 4. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game Reserve	3,165,000	(1,380,292)	1,784,708	3,165,000	(1,274,792)	1,890,208

#### Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Game Reserve	1,890,208	(105,500)	1,784,708

#### Reconciliation of investment property - 2010

	Opening balance	Depreciation	Total
Game Reserve	1,995,708	(105,500)	1,890,208

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality has taken advantage of the transitional provisions of Directive 4 which are available to low capacity municipalities.

Investment property have therefore not been measured in accordance with GRAP 16 or the accounting policy above. A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be completed by June 30, 2012.

### 5. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	1,162,644	(367,234)	795,410	1,056,836	(311,921)	744,915
Plant and machinery	526,095	(525,308)	787	525,306	(525,296)	10
Furniture and fixtures	156,947	(143,892)	13,055	149,405	(142,037)	7,368
Motor vehicles	1,841,189	(682,409)	1,158,780	731,813	(577,991)	153,822
Office equipment	450,812	(214,118)	236,694	401,645	(145,235)	256,410
Infrastructure	15,953,685	(6,322,405)	9,631,280	14,179,448	(5,248,169)	8,931,279
Community	43,404,986	(2,140,833)	41,264,153	41,907,986	(2,013,337)	39,894,649
Capital work in progress	924,677	-	924,677	-	-	-
Finance lease assets	444,593	(444,593)	-	444,593	(392,299)	52,294
<b>Total</b>	<b>64,865,628</b>	<b>(10,840,792)</b>	<b>54,024,836</b>	<b>59,397,032</b>	<b>(9,356,285)</b>	<b>50,040,747</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Buildings	744,915	105,808	(55,313)	795,410
Plant and machinery	10	789	(12)	787
Furniture and fixtures	7,368	7,544	(1,857)	13,055
Motor vehicles	153,822	1,149,373	(144,415)	1,158,780
Office equipment	256,410	49,167	(68,883)	236,694
Infrastructure	8,931,279	1,774,237	(1,074,236)	9,631,280
Community	39,894,649	1,497,001	(127,497)	41,264,153
Capital work in progress	-	924,677	-	924,677
Finance lease assets	52,294	-	(52,294)	-
	<b>50,040,747</b>	<b>5,508,596</b>	<b>(1,524,507)</b>	<b>54,024,836</b>

#### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Buildings	748,139	31,583	(34,807)	744,915
Plant and machinery	5,010	-	(5,000)	10
Furniture and fixtures	13,708	3,645	(9,985)	7,368
Motor vehicles	209,175	746	(56,099)	153,822
Office equipment	125,827	181,285	(50,702)	256,410
Infrastructure	6,492,378	3,321,401	(882,500)	8,931,279
Community	34,118,841	5,900,000	(124,192)	39,894,649
Finance Lease Assets	141,212	-	(88,918)	52,294
	<b>41,854,290</b>	<b>9,438,660</b>	<b>(1,252,203)</b>	<b>50,040,747</b>

#### Assets subject to finance lease (Net carrying amount)

Finance lease assets	-	52,294
----------------------	---	--------

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	451,528	(354,381)	97,147	365,132	(264,101)	101,031

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	101,031	86,396	(90,280)	97,147

#### Reconciliation of intangible assets - 2010

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010		
<b>6. Intangible assets (continued)</b>				
	Opening balance	Additions	Amortisation	Total
Computer software	181,827	3,801	(84,597)	101,031
<b>7. Loans and receivables</b>				
Housing debtors			219,071	197,165
<p>The Department of Housing provided Emadlangeni Municipality with a loan to finance housing selling scheme undertaken by the municipality, the loan was extinguished on 1 April 1998 and transferred to the Housing Development Fund in terms of the Housing Act No 107 of 1997. The initial contract states that residents who benefited from the housing scheme will pay a deposit of R300.00, the capital must be paid back to Emadlangeni Municipality within 360 months together with interest of 13.5 % per annum. The monthly payments will be determined as 11% of the buyer's monthly salary. The buyer has an option to purchase the house after 3 years or once 10% of the capital amount has been paid and the buyer provides surety to the balance of the capital amount.</p>				
<b>Total other financial assets</b>			<b>219,071</b>	<b>197,165</b>
<b>Non-current assets</b>				
Loans and receivables			165,340	165,197
<b>Current assets</b>				
Loans and receivables			53,731	31,968
			<b>219,071</b>	<b>197,165</b>

The municipality has determined that the carrying value of financial assets approximates fair value. The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

For debt securities classified as fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

### 8. Employee benefit obligations

All municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality.

Municipal employees are also members of the KwaZulu-Natal Joint Municipal Provident Fund. All contributions have been included in the employee related cost note (refer note 25).

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>9. Financial assets - Investments</b>		
<b>Financial assets - Investments</b>		
<b>Current portion</b>		
<b>Standard Bank of South Africa</b>		
Fixed deposit account	-	322,650
MSIG 1 call account	10	11,577
Repair of 376 houses grant call account	4,662,884	4,456,168
FMG 2 call account	40,210	233,436
Spatial planning grant call account	25,224	64,190
MSIG 2 call account	154,617	410,188
PMS call account	11	113,384
MAP 2 call account	43,229	253,356
LED call account	2	1,868
MFMS call account	982	175,293
MIG call account	2,438,211	2,455,978
MSIG 3 call account	392,499	280,082
MAP 1 call account	148,987	144,167
Fixed deposit 2	1,039,342	-
Small town rehabilitation grant	2,494,358	-
FMG 1 Grant	372,915	-
MSIG 4 Grant	502,438	-
Housing Operating Account	394,381	-
	<b>12,710,300</b>	<b>8,922,337</b>
The above are invested in call and short term deposit bank accounts. The interest earned on investments varies between 1.5% and 10.9% per annum.		
<b>10. Other receivables</b>		
Sundry debtors	204,660	54,369
<b>11. VAT receivable</b>		
VAT refundable	1,291,460	1,565,396
<b>12. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	4,710,820	4,363,753
Electricity	1,245,920	1,160,457
Refuse	1,345,361	1,106,349
Sundry debtors	1,232,296	1,391,013
	<b>8,534,397</b>	<b>8,021,572</b>
<b>Less: Provision for debt impairment</b>		
Rates	(2,766,162)	(2,201,293)
Electricity	(314,385)	(192,438)
Refuse	(1,088,374)	(846,091)
Sundry debtors	(1,232,766)	(1,152,795)
	<b>(5,401,687)</b>	<b>(4,392,617)</b>
<b>Net balance</b>		
Rates	1,944,658	2,162,460
Electricity	931,535	968,019
Refuse	256,987	260,258
Sundry debtors	(470)	238,218

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>12. Consumer debtors (continued)</b>	<b>3,132,710</b>	<b>3,628,955</b>
<b>Rates</b>		
Current (0 -30 days)	1,339,168	905,838
31 - 60 days	261,482	576,914
61 - 90 days	105,475	257,242
91 - 120 days	238,533	422,466
	<b>1,944,658</b>	<b>2,162,460</b>
<b>Electricity</b>		
Current (0 -30 days)	431,871	472,195
31 - 60 days	190,707	210,137
61 - 90 days	150,219	100,318
91 - 120 days	158,738	185,369
	<b>931,535</b>	<b>968,019</b>
<b>Refuse</b>		
Current (0 -30 days)	94,994	90,240
31 - 60 days	60,598	62,750
61 - 90 days	54,231	52,507
91 - 120 days	47,164	54,761
	<b>256,987</b>	<b>260,258</b>
<b>Sundry debtors</b>		
Current (0 -30 days)	32,030	20,927
31 - 60 days	15,366	13,931
61 - 90 days	15,158	19,283
91 - 120 days	(63,024)	184,077
	<b>(470)</b>	<b>238,218</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(4,392,617)	(2,827,095)
Contributions to provision	(1,046,885)	(1,565,522)
Debt impairment written off against provision	37,815	-
	<b>(5,401,687)</b>	<b>(4,392,617)</b>

### Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R3,468,196 (2010: R3,390,736 ) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,898,062	1,468,273
2 months past due	668,096	1,259,869
3 months past due	902,038	662,594

#### Consumer debtors impaired

As of 30 June 2011, consumer debtors of R5,401,687 (2010: R4,392,617 ) were impaired and provided for.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>12. Consumer debtors (continued)</b>		
The amount of the provision was R5,401,687 as of 30 June 2011 (2010: R4,392,617 ).		
The ageing of these loans is as follows:		
Over 3 Months	5,401,687	4,392,617
<b>13. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	781	781
Bank balances	1,832,954	3,035,071
	<b>1,833,735</b>	<b>3,035,852</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 13. Consumer debtors (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Standard Bank of South Africa - Newcastle branch - Public sector current account - Account number 06 010 0001	2,396,023	3,035,071	1,832,954	3,035,070

### 14. Finance lease obligation

#### Minimum lease payments due

- within one year - 89,482

less: future finance charges - 89,482

**Present value of minimum lease payments** **- (3,033)**

#### Present value of minimum lease payments due

- within one year - 86,449

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

Interest rates are linked to prime less 0.5 % at contract date. The leased assets are as indicated in Note 5 and Appendix A. These assets are financed by Standard Bank of South Africa

The annual lease instalments inclusive of interest is RNil (2010: R119 168).

The average lease term is 5 years.

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Repair of 376 houses	4,210,673	4,210,673
MIG Grant	2,350,229	1,679,421
MSIG Grant	1,057,339	530,778
MAP Grant	174,160	500,532
MFMS Grant	167,694	167,694
FMG Grant	37,475	77,894
Spatial Planning Grant	22,347	62,029
PMS Grant	16,113	16,113
MSIG 04/05 Grant	11,405	11,405
LED Grant	1,840	1,840
Small Town Rehabilitation Grant	2,493,303	-
	<b>10,542,578</b>	<b>7,258,379</b>

#### Repair of 376 houses

Balance unspent at the beginning of the year 4,210,673 4,210,673

#### MIG Grant

Balance unspent at the beginning of the year 1,679,421 1,303,820

Current year receipts 4,670,000 6,297,999

Conditions met - transferred to revenue (3,999,192) (5,922,398)

**Conditions still to be met - remain liabilities** **2,350,229 1,679,421**

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>15. Unspent conditional grants and receipts (continued)</b>		
<b>MSIG Grant</b>		
Balance unspent at the beginning of the year	530,778	262,781
Current year receipts	750,000	735,000
Conditions met - transferred to revenue	(223,440)	(467,003)
<b>Conditions still to be met - remain liabilities</b>	<b>1,057,338</b>	<b>530,778</b>
<b>MAP Grant</b>		
Balance unspent at the beginning of the year	500,532	860,093
Current year receipts	-	550,000
Conditions met - transferred to revenue	(326,372)	(909,561)
<b>Conditions still to be met - remain liabilities</b>	<b>174,160</b>	<b>500,532</b>
<b>Project Consolidate Grant</b>		
Balance unspent at the beginning of the year	-	300,000
Conditions met - transferred to revenue	-	(300,000)
<b>Conditions still to be met - remain liabilities</b>	<b>-</b>	<b>-</b>
<b>MFMS Grant</b>		
Balance unspent at the beginning of the year	167,694	421,679
Conditions met - transferred to revenue	-	(253,985)
<b>Conditions still to be met - remain liabilities</b>	<b>167,694</b>	<b>167,694</b>
<b>FMG Grant</b>		
Balance unspent at the beginning of the year	77,894	173,300
Current year receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,290,419)	(1,095,406)
<b>Conditions still to be met - remain liabilities</b>	<b>37,475</b>	<b>77,894</b>
<b>Spatial Planning Grant</b>		
Balance unspent at the beginning of the year	62,029	62,029
Conditions met - transferred to revenue	(39,682)	-
<b>Conditions still to be met - remain liabilities</b>	<b>22,347</b>	<b>62,029</b>
<b>PMS Grant</b>		
Balance unspent at the beginning of the year	16,113	108,276
Conditions met - transferred to revenue	-	(92,163)
<b>Conditions still to be met - remain liabilities</b>	<b>16,113</b>	<b>16,113</b>
<b>MSIG 04/05 Grant</b>		
Balance unspent at the beginning of the year	11,405	11,405
<b>LED Grant</b>		
Balance unspent at the beginning of the year	1,840	1,840
<b>Small Town Rehabilitation Grant</b>		
Current year receipts	2,550,000	-
Conditions met- transferred to revenue	(56,697)	-
<b>Conditions still to be met-remain liabilities</b>	<b>2,493,303</b>	<b>-</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 15. Unspent conditional grants and receipts (continued)

#### Repair of 376 houses

The main objective of this grant is for the repair and refurbishment of the 376 houses that were damaged due to bad weather in the region.

#### MIG Grant

This grant will be used to address backlogs in municipal infrastructure required for the provisions of basic services. The unspent portion will be used to complete the same projects.

#### MSIG Grant

This grant is used for infrastructure and for capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

#### MAP Grant

The management assistant programme is the funding from the KZN Department of Cooperative Governance and Traditional Affairs for the management to assist the municipality to provide better services to the community.

#### Project Consolidate Grant

The main objective of this grant is to assist the municipality in the alignment of the Integrated Development Plan and Service Delivery Budget Implementation Plan.

#### MFMS Grant

The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. The unspent portion will be used to complete the same projects

#### FMG Grant

The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. The unspent portion will be used to complete the same projects.

#### Spatial Planning Grant

The objective of this grant is to assist the municipality in influencing the distribution of people and activities in various space scales including land use planning and urban planning.

#### PMS Grant

The main objective of this grant is to assist the municipality in establishing an automated PMS system and improving the performance management of the municipality.

#### LED Grant

This grant is used for local economic development and to achieve economic sustainability. The unspent portion will be used to complete similar projects.

#### Small Town Rehabilitation Grant

The primary objective of the grant is to improve and rehabilitate the municipality's town

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 16. Provisions

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	5,900,000	413,000	-	6,313,000
Leave pay provision	554,201	574,464	(371,655)	757,010
	<b>6,454,201</b>	<b>987,464</b>	<b>(371,655)</b>	<b>7,070,010</b>

#### Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	-	5,900,000	-	5,900,000
Leave pay provision	337,002	525,890	(308,691)	554,201
Provision for landfill sites	-	-	-	-
	<b>337,002</b>	<b>6,425,890</b>	<b>(308,691)</b>	<b>6,454,201</b>

Non-current liabilities		6,313,000	-
Current liabilities		757,010	6,454,201
		<b>7,070,010</b>	<b>6,454,201</b>

#### Environmental rehabilitation

This provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life.

#### Leave pay

The leave day provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

### 17. Annuity loan

The Municipality has received a loan from Development Bank of Southern Africa (DBSA) to fund the renovation of the municipal building. The term of the loan is 20 years. Interest charged varies between 10.81 % and 14.40% per annum, payable every 6 months.

#### Annuity Loan

DBSA loan	1,036,002	1,069,038
Less: current portion transferred to current liabilities	(36,358)	(33,036)
	<b>999,644</b>	<b>1,036,002</b>

### 18. Trade and other payables

Trade payables	644,943	4,001,734
Sundry creditors	(57,246)	774,462
Other deposits	21,664	21,186
Retention liability	166,694	-
	<b>776,055</b>	<b>4,797,382</b>

The fair value of trade and other payables approximates their carrying amounts.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>19. Consumer deposits</b>		
Electricity	141,673	128,957
Interest is not paid to consumers when deposits are refunded.		
<b>20. Property Rates</b>		
<b>Rates received</b>		
Property rates	5,968,483	5,095,919
Property rates - penalties imposed and collection charges	177,614	214,008
	<b>6,146,097</b>	<b>5,309,927</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 January 2009. The following general rates are applied to property valuations to determine assessment rates:

Vacant land other than residential	R 0.0781
Schools	R 0.0385
Vacant land zoned residential	R 0.06127
Public service infrastructure	R 0.000549
Agricultural used for agricultural purposes	R 0.000549
Agricultural used for other purposes	R 0.008498
Business and commercial property	R 0.02673
State owned property	R 0.03839
Industrial property	R 0.02673
Smallholding for agricultural/residential purpose	R 0.00275
Smallholding for business/commercial/industrial	R 0.008498
Residential properties	R 0.009922

The following rebates are applied:

- 100% of market value for public and residential worship, land reform properties
- 50% of market value less exemption for phasing in discount
- 30% of market value less exemption for public service infrastructure
- 20% of market value less exemption for residential properties
- 10% of market value less exemption for residential and commercial properties
- 10% of market value less exemption for industrial properties

Rates are levied on a monthly basis. Rates are levied on the following properties as per the valuation roll.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>20. Property Rates (continued)</b>		
<b>Property valuations</b>		
Agricultural	-	1,038,431,000
Utrecht suburb	-	299,922,400
Groenvlei suburb	-	5,254,000
Kingstown suburb	-	10,188,000
Public Infrastructure System	-	2,915,000
Agricultural properties used for agricultural purposes	775,579,000	-
Agricultural properties used for other business and commercial purposes	14,695,000	-
Smallholding used for agricultural/residential purposes	507,000	-
Smallholdings used for business/commercial/industrial purposes	1,400,000	-
Business and Commercial properties(with residential usage)	4,137,000	-
Business and Commercial properties	18,978,000	-
Industrial properties	2,535,000	-
Land reform properties	102,069,000	-
Municipal properties	36,602,000	-
Public Benefit Organisation	2,127,000	-
Public Service Infrastructure	23,651,000	-
Residential Properties	230,798,000	-
Schools (Private and State)	25,790,000	-
State owned properties	130,110,000	-
Vacant land(other than residential)	1,433,000	-
Vacant land zoned residential	14,129,000	-
Public Worship	4,211,000	-
Worship Residential	1,196,000	-
	<b>1,389,947,000</b>	<b>1,356,710,400</b>
<b>21. Service charges</b>		
Sale of electricity	8,501,924	6,772,041
Refuse removal	1,090,522	1,014,551
	<b>9,592,446</b>	<b>7,786,592</b>
<b>22. Government grants and subsidies</b>		
Equitable share	9,621,617	7,833,099
MFMS Grant	-	253,985
MIG Grant	3,999,192	5,922,398
FMG Grant	1,290,419	1,095,406
MAP Grant	326,372	909,562
MSIG Grant	223,440	467,003
PMS Grant	-	92,162
Project Consolidate Grant	-	300,000
Small Town Rehab	56,697	-
SPG Grant	39,682	-
	<b>15,557,419</b>	<b>16,873,615</b>
<b>23. Other income</b>		
Fees earned	89,170	139,083
Insurance claims	566,339	-
	<b>655,509</b>	<b>139,083</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>24. General expenses</b>		
Advertising	166,255	189,534
Auditors remuneration	760,206	801,648
Bank charges	116,477	107,616
Commission paid	84,621	-
Consulting and professional fees	53,186	167,343
Consumables	41,528	64,023
Entertainment	12,976	4,295
Insurance	172,556	136,438
Promotions and sponsorships	410	1,083
Motor vehicle expenses	42,050	124,923
Fuel and oil	232,937	314,393
Postage and courier	18,712	24,048
Printing and stationery	13,404	48
Royalties and license fees	19,340	85,252
Security (guarding of municipal property)	5,369	64,770
Software expenses	8,410	-
Subscriptions and membership fees	37,837	2,556
Telephone and fax	324,233	289,533
Training	-	600
Travel - local	342,482	338,597
Refuse	7,356	6,034
Water	68,167	61,825
Valuation roll expense	-	7,054
DBSA	-	340,969
Other	438,704	392,684
Other correction	-	(1,755,798)
Chemicals	2,652	-
	<b>2,969,868</b>	<b>1,769,468</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>25. Employee related costs</b>		
Basic	9,172,061	7,062,848
Medical aid - company contributions	383,887	400,531
UIF	84,886	64,473
SDL	67,572	66,035
Other payroll levies	9,450	10,262
Increase in leave pay provision	574,464	525,891
Post-employment benefits	616,508	523,428
Travel, motor car, accommodation, subsistence and other allowances	511,239	880,707
Overtime payments	287,024	240,767
13th Cheques	501,031	455,364
Acting allowances	44,797	9,959
Housing benefits and allowances	196,357	67,626
Other allowances	130,692	127,566
	<b>12,579,968</b>	<b>10,435,457</b>

Employee related costs exclude the salary costs of finance interns which are financed by the FMG Grant. Refer note 34 for grant expenses.

### Remuneration of Municipal Manager

Annual remuneration	487,841	385,013
Car, travel, accomodation allowance and other	271,776	269,093
Leave pay	-	105,185
	<b>759,617</b>	<b>759,291</b>

### Remuneration of Chief Finance Officer

Annual remuneration	334,237	196,363
Car, travel, accomodation allowance and other	175,172	48,729
	<b>509,408</b>	<b>245,092</b>

### Remuneration of Director Corporate Services

Annual remuneration	302,314	197,942
Car, travel, accomodation allowance and other	206,258	191,268
	<b>508,572</b>	<b>389,210</b>

### Remuneration of Director Technical Services

Annual remuneration	194,981	265,453
Car, travel, accomodation allowance and other	86,140	184,529
Leave pay	111,929	-
	<b>393,050</b>	<b>449,982</b>

### Remuneration of Director Community Services

Annual remuneration	99,000	-
Car, travel, accomodation allowance and other	37,873	-
	<b>136,873</b>	<b>-</b>

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>26. Remuneration of councillors</b>		
Mayor	207,631	279,319
Councillors	958,610	993,507
Councillors' pension and medical aid contributions	16,795	17,963
	<b>1,183,036</b>	<b>1,290,789</b>
<b>27. Debt impairment</b>		
Increase in debt impairment provision(refer to note 12)	1,046,885	1,565,520
<b>28. Investment revenue</b>		
<b>Interest revenue</b>		
Investments	512,845	440,725
<b>29. Fair value adjustments</b>		
Biological assets - (Fair value model)	1,316,320	-
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	1,524,507	1,252,200
Investment property (Refer note 4)	105,500	105,500
Intangible assets (Refer note 6)	90,280	84,597
	<b>1,720,287</b>	<b>1,442,297</b>
<b>31. Finance costs</b>		
Non-current borrowings	114,819	114,745
Finance leases	3,702	14,991
	<b>118,521</b>	<b>129,736</b>
<b>32. Auditors' remuneration</b>		
Fees	760,206	801,648
<b>33. Operating lease</b>		
Operating leases - lessor		

The municipality has low cost houses and flats that are leased to the public and staff. Lease rentals are based on a percentage of the lessee's income levels or on a rate below market value. These leases are cancellable at any time by either party provided that one month's notice is given and there is no fixed lease period. The related properties are included in property, plant and equipment. Operating lease income received is R327,445 (2010: R295,234). Operating lease income is included in Rental of facilities and equipment

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>34. Grant expenses</b>		
<b>Grant Expenditure</b>		
Operational	2,089,444	9,288,168
Grant expenses comprise of the following:		
<b>PMS Grant</b>		
Public participation expenses	-	92,162
<b>MAP Grant</b>		
Consulting and contract services	326,372	909,562
<b>Grants in aid</b>		
Grants in aid	-	7,571
<b>Municipal Admin System Grant</b>		
Municipal administration and governance costs	-	40,030
<b>FMG Grant</b>		
Training, intern salaries and other financial management capacity building costs	1,175,655	1,095,406
<b>MIG Grant</b>		
Consulting and contracted services	275,143	5,922,399
<b>MSIG Grant</b>		
Costs relating to implementation and improvement to systems	215,896	467,003
<b>MFMS Grant</b>		
Costs relating to capacity building in financial management	-	253,985
<b>Project Consolidate</b>		
Costs relating to alignment of integrated development plan and service delivery budget implementation plan	-	500,050
<b>Spatial Planning Grant</b>		
	39,682	-
<b>Small Town Rehabilitation Grant</b>		
	56,697	-
<b>Grant expenses</b>		
Total	2,089,444	9,288,168
<b>35. Bulk purchases</b>		
Electricity	6,143,247	5,257,017
<b>36. Cash generated from operations</b>		
Surplus	7,406,974	769,450
<b>Adjustments for:</b>		
Depreciation and amortisation	1,720,287	1,442,297

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>36. Cash generated from operations (continued)</b>		
Fair value adjustments(refer note 3)	(1,316,320)	-
Finance costs - Finance leases	3,702	14,991
Debt impairment	1,046,885	1,565,520
Movements in provisions	615,809	6,117,199
Adjustment for GRAP	-	367,236
Correction of previous misstatements(refer note 38)	-	4,117,656
<b>Changes in working capital:</b>		
Other receivables	(150,291)	9,488
Consumer debtors	(550,640)	(2,717,399)
Trade and other payables	(4,021,327)	3,239,468
VAT	273,936	(1,281,551)
Unspent conditional grants and receipts	3,284,199	(457,517)
Consumer deposits	12,716	11,950
	<b>8,325,930</b>	<b>13,198,788</b>
<b>37. Commitments and contingencies</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for</b>		
• PMU Business Plan	410,656	283,814
• Rehabilitation of Kwalembe-Kempslust access road	-	1,927,170
• Rehabilitation of rural roads	-	248,226
• Small Town Rehabilitation	2,550,000	-
• Fencing ELM Phase 4	460,608	-
	<b>3,421,264</b>	<b>2,459,210</b>
<b>Approved but not yet contracted for</b>		
• Emxakheni Creche	-	702,685
• Bendsorp Agri-village Creche	-	702,685
• Kwa-malambana gravel road rehabilitation	-	1,192,824
• Emxhakeni gravel access road	-	1,498,876
• Enchuba pedestrian bridge	1,065,672	-
• Khayaletu/Northhill Gravel road	3,027,547	-
• Blue Mountain Creche	550,100	-
• Ndlamlenze Creche	550,100	-
• Kwa-Mabaso Creche	550,100	-
	<b>5,743,519</b>	<b>4,097,070</b>

The committed expenditure for the current year will be financed by government grants.

### Contingencies

At the time of completion of the annual financial statements, there were no contingent liabilities brought to the municipality's attention.

### 38. Prior period errors

Investments were understated due to incorrect treatment of interest and reinvestments in prior years.  
Cash and cash equivalents understated by long outstanding unexplained reconciling items

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

### Statement of Financial Performance

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>38. Prior period errors (continued)</b>		
<b>Financial assets-Investments</b>		
As previously reported	-	6,756,220
Adjustment	-	2,166,117
	-	<b>8,922,337</b>
<b>Accumulated surplus</b>		
As previously reported	-	46,741,977
Adjustment	-	4,117,656
	-	<b>50,859,633</b>
<b>Cash and cash equivalents</b>		
As previously reported	-	1,084,313
Adjustment	-	1,951,539
	-	<b>3,035,852</b>

### 39. Events after the reporting date

There were no material events subsequent to the reporting date to report as at the date of the annual financial statements.

### 40. Unauthorised expenditure

At the time of completion of the annual financial statements, there were no unauthorised expenditure.

### 41. Fruitless and wasteful expenditure

In the financial year under review, the municipality incurred interest on overdue accounts of R44,501.78. The accounts are held with ESKOM, The Postmaster and Uthukela Water (Pty) Ltd

### 42. Irregular expenditure

#### Details of Irregular Expenditure not recoverable (not condoned)

-

In the current year, the municipality internally consumed R779,178 worth of electricity. This amount has been included in note 43 and is reflected as a loss but actually relates to internal consumption.

### 43. Additional disclosure in terms of Municipal Finance Management Act

#### Councillors' arrear consumer accounts

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

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
BC Mabaso	9,661	-	9,661
VC Ntshangase	-	5,189	5,189
	<b>9,661</b>	<b>5,189</b>	<b>14,850</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

SMI Attorneys and advisory services were appointed during the financial year under review to provide a legal opinion for the purposes of guiding and advising council and the process followed in procuring their services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The deviation from supply chain management regulations were resolved at a council meeting held on April 26, 2011.

Blue Point Planning was engaged to assist in developing the Municipality's IDP. The appointment deviated from the provisions of the Supply Chain Policy. However, the reasons for the deviation were documented and reported to the accounting officer. Council resolved the deviation on a meeting held on the 26th of April 2011.

Bass Air Aviation was engaged to conduct a specialist service of biological assets aerial count for R33 000. The appointment deviated from provisions of the Supply Chain Policy.

Mr E Madamalala was appointed to assist in the development of a recovery plan whilst the development Agency was being established. Due to his previous experience with Balele game park he was approached. R8 218.83 was paid. The appointment was not in line with the Supply Chain Policy.

NN Mowerman was utilised to repair and provide additional grass cutting machines. This company is the sole provider of the Honda machines. The procurement and repair of the cutting grass machines for R25 456.03 deviated from SCM policy. Fick Elect approached for an emergency repair of on booster pump controller for R1 980 not in line with SCM policy.

Stucky Motor was used to repair a municipal vehicle for R3 642.15 and R7 229.20 without following SCM procedures.

Stucky motors is the only authorised service provider for Colt cars in the area.

Menmat was utilised for the service of the traffic police vehicle for R17 177.20. Menmat is the sole service provider for Chev Avoe cars in the area. SCM procedures were not properly followed.

Shepstone and Willie Attorneys were engaged to provide legal opinion on what constituted a council quorum under the circumstance the municipality found itself. This was not in line with SCM policy.

Shuttle and Dawjee was also approached to give advice on withdrawal of councillors remuneration for R450. This was not in line with SCM policy.

WJ Coetzee was appointed for the emergency repair of an electricity transformer for R261 056.71 not in line with SCM policy as the situation was considered to be of an emergency nature.

PJ Le Roux was appointed for the disciplinary hearing of LE Nkabinde and C lens for an amount of R1 655.22 without following SCM policy.

Fick Elect was engaged for the emergency repairs at the abattoir for R1 960 without following proper SCM procedures.

The above mentioned deviations from the Supply Chain Policy were subsequently taken to council for condonment.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 45. Risk management

#### Maximum credit risk exposure

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

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

Financial assets exposed to credit risk at year end are noted under the respective Financial assets - Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the municipality's maximum exposure to credit risk.

#### Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The municipality's financial liabilities are all classified as current liabilities, payable within the next 12 months, other than the finance lease, the maturity of which is disclosed in the finance lease note.

#### Interest rate risk

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

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Long-term debtors
- Annuity loan

#### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the municipality's surplus or deficit for year.

	Effect on surplus/(deficit) for the year	
	2% increase	2% decrease
2011		
Financial assets - investments	261,264	-261,264
Annuity loan	-20,720	20,720
Long term debtors	3,800	-3,800
2010		
Financial assets - investments	135,124	-162,614
Annuity loan	-21,381	21,975
Long term debtors	3,943	-4,124

#### Fair value hierarchy

The municipality does not carry any of its financial assets at fair value. The fair value hierarchy disclosure is therefore of no relevance and has not been included.

# Emadlangeni Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>46. Electricity losses</b>		
<b>Electricity units (kWh) lost in distribution</b>		
Electricity units (kWh) purchased	11,870,709	12,878,087
Electricity units (kWh) sold	(9,301,036)	(8,702,619)
	<b>2,569,673</b>	<b>4,175,468</b>

Electricity losses for the financial year is 22% (2010: 32%).

These losses are attributable to electricity line losses within the electricity network infrastructure.

In the current year, the municipality internally consumed R779,178 worth of electricity. This amount is reflected as a loss but actually relates to internal consumption.

### 47. Contributions to organised local government

Council subscriptions	35,586	100,000
-----------------------	--------	---------

# **Emadlangeni Municipality**

Annual Financial Statements for the year ended 30 June 2011







# Emadlangeni Municipality

## Appendix E(1)

June 2011

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

	Current year 2011 Act. Bal.	Current year 2011 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Property rates	5,968,483	12,985,185	(7,016,702)	(54.0)	Rebates incorrectly budget as income
Service charges	9,592,446	10,035,438	(442,992)	(4.4)	
Property rates - penalties imposed and collection charges	177,614	150,000	27,614	18.4	
Rental of facilities and equipment	1,346,522	1,518,216	(171,694)	(11.3)	Plant hire did not take place as anticipated.
Fines	164,737	153,498	11,239	7.3	
Licences and permits	755,978	741,295	14,683	2.0	
Government grants & subsidies	15,557,419	19,911,923	(4,354,504)	(21.9)	Grant income of R4 417 326 from revenue recognised on conditions met on Repair of 376 Houses Grant
Miscellaneous other revenue	461,201	2,876,593	(2,415,392)	(84.0)	Disposal of Municipal houses and vacant land did not take place as anticipated in the period under review.
Fees earned	89,168	82,360	6,808	8.3	
Other income 1	566,339	-	566,339	-	Insurance claims on transformer damaged by lightning
Interest received - investment	512,845	26,219	486,626	,856.0	Interst from investments was under budgeted.
	<b>35,192,752</b>	<b>48,480,727</b>	<b>(13,287,975)</b>	<b>(27.4)</b>	
<b>Expenses</b>					
Personnel	(12,579,967)	(13,181,851)	601,884	(4.6)	
Remuneration of councillors	(1,183,035)	(1,707,254)	524,219	(30.7)	Full compliment of Councillors not was not always there during the period. One councillor passed away during the year.
Depreciation	(1,630,006)	(400,000)	(1,230,006)	307.5	Under budgeting of non cash items
Amortisation	(90,280)	-	(90,280)	-	Under budgeting of non cash items
Finance costs	(118,521)	(114,725)	(3,796)	3.3	
Debt impairment	(1,046,885)	(576,149)	(470,736)	81.7	High level of indigent households and under budgeting of non cash items
Repairs and maintenance - General	(1,250,843)	(1,330,249)	79,406	(6.0)	
Bulk purchases	(6,143,247)	(6,195,400)	52,153	(0.8)	
Grants and subsidies paid	(2,089,444)	(7,116,035)	5,026,591	(70.6)	Repair of 376 houses grant expenditure of R4 274 616 did not take place in the current year as budgeted. Committed funds on unspent grants will be spent in the following financial year
General Expenses	(2,969,873)	(5,519,122)	2,549,249	(46.2)	Massive cost curtailment mesaures introduced in the current period.
	<b>(29,102,101)</b>	<b>(36,140,785)</b>	<b>7,038,684</b>	<b>(19.5)</b>	
<b>Other revenue and costs</b>					
Fair value adjustments	1,316,320	-	1,316,320	-	
	1,316,320	-	1,316,320	-	
Net surplus/ (deficit) for the year	7,406,971	12,339,942	(4,932,971)	(40.0)	

