BELABELA MUNICIPALITY

BELA BELA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

General Information

Legal form of entity	Local municipality
Executive committee	
Mayor	Cllr F.S. Hlungwane
Councillors	Cllr P.M. Mahlangu
	Cllr T.E. Mokonyane
	Cllr R.M. Radebe
	Cllr M.L. Nhlapo
	Cllr G.M. Seleka
	Cllr S.E. Maluleka
	Cllr M.M. Monanyane
	Cllr M.H. Ledwaba
	Cllr M.J. Ngobeni
	Cllr M.J. Sesane
	Cllr W.K.R. Mokgethoa
	Cllr J.W. Fourie
	Cllr C Boshoff
	Cllr J.F. van der Merwe
	Cllr P.M. Aphane
	Cllr K.B. Alberts
Grading of local authority	Low capacity municipality
Accounting Officer	Mr. N.S. Bambo
Chief Finance Officer (CFO)	Mr. J.S. Maja
Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa

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

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Abbreviations

DWAF	Department of Water and Forestry
DME	Department of Minerals and Energy
DBSA	Development Bank of South Africa
GRAP	Generally Recognised 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)
MSIG	Municipal Systems Imporovement Grant
FMG	Finance Management Grant
PAYE	Pay As You Earn
UIF	Unemployeement Insurance Fund
SDL	Skills Development Levy
VAT	Value Added Taxation

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

Although the accounting officer are primarily responsible for the financial affairs of the municipality.

The annual financial statements set out on pages 5 to 65, 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:

Mr. N.S. Bambo
Municipal Manager / Accounting Officer

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 35 656 418 (2010: surplus R 11 683 547).

2. Going concern

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

3. Subsequent events

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

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year are set out in the notes to the financial statements.

6. Corporate governance

The council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
  - - non-executive councillors, all of whom are independent councillors as defined in the Code; and
  - - executive councillors.

Remuneration

The remuneration of the Accounting Officer and section 57 managers are determined by the council.

Executive meetings

Non-executive councillors have access to all members of management of the municipality.

Audit and risk committee

Mr. I.W. Modisha was the chairperson of the audit committee for the year.

In terms of Section 166 of the Municipal Finance Management Act, the municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive councillors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

Internal audit

Accounting Officer's Report

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003

The chief internal auditor is Mr. M.C. Kabe.

7. Bankers

The municipality banks primarily with ABSA Bank Limited.

8. Auditors

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

9. Public Private Partnership

The municipality had no Private Public Partnerships during the year.

Statement of Financial Position

Figures in Rand	Note(s)	2011	Restated 2010
Assets			
Current Assets			
Cash and cash equivalents	10	1 490 627	1 449 807
Consumer debtors	9	11 197 379	10 668 704
Inventories	7	56 403	-
Trade and other receivables from exchange transactions	8	954 577	1 049 334
		13 698 986	**13 167 845**
Non-Current Assets			
Intangible assets	4	175 490	-
Other financial assets	5	825 548	815 928
Property, plant and equipment	3	1 470 449 329	123 006 410
		1 471 450 367	**123 822 338**
Total Assets		**1 485 149 353**	**136 990 183**
Liabilities			
Current Liabilities			
Other financial liabilities	11	1 492 708	1 193 312
Trade and other payables from exchange transactions	14	30 403 847	21 850 706
VAT payable	15	2 256 285	2 401 754
Consumer deposits	16	3 088 398	2 834 438
Unspent conditional grants and receipts	12	1 993 344	466 331
Provisions	13	4 223 358	4 374 364
Bank overdraft	10	20 420 836	4 803 172
		63 878 776	**37 924 077**
Non-Current Liabilities			
Other financial liabilities	11	11 810 546	13 170 630
Retirement benefit obligation	6	16 826 904	15 642 267
Provisions	13	13 075 198	12 830 802
		41 712 648	**41 643 699**
Total Liabilities		**105 591 424**	**79 567 776**
Net Assets		**1 379 557 929**	**57 422 407**
Net Assets			
Accumulated surplus		1 379 557 929	57 422 407

Statement of Financial Performance

Figures in Rand	Note(s)	2011	Restated 2010
Revenue			
Property rates	18	37 781 651	34 483 697
Service charges	19	74 982 927	64 808 343
Rental of facilities and equipment		228 928	300 140
Interest received (consumer debtors)		6 470 582	7 273 511
Fines		1 228 134	1 670 699
Licences and permits		7 200 879	7 614 655
Government grants and subsidies	20	47 461 681	44 302 051
Other income		1 450 709	1 662 370
Interest received - investment	24	96 802	79 490
Total Revenue		**176 902 293**	**162 194 956**
Expenditure			
Employee related costs	22	62 747 004	54 886 278
Depreciation and amortisation	25	35 561 046	7 785 726
Impairment loss		2 784 201	-
Finance costs	26	3 219 937	2 373 004
Debt impairment		13 989 299	15 911 616
Repairs and maintenance		9 606 284	7 203 227
Bulk purchases	29	46 270 732	29 380 106
General Expenses	21	38 381 671	33 283 372
Total Expenditure		**212 560 174**	**150 823 329**
Gain on disposal of assets and liabilities		1 463	311 920
(Deficit)/Surplus for the year		**(35 656 418)**	**11 683 547**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	**57 875 674**	**57 875 674**
Changes in net assets		
Surplus for the year	11 683 547	11 683 547
Total changes	11 683 547	11 683 547
Opening balance as previously reported	57 422 406	57 422 406
Adjustments		
Prior year adjustments	1 357 791 941	1 357 791 941
Balance at 01 July 2010 as restated	**1 415 214 347**	**1 415 214 347**
Changes in net assets		
Surplus for the year	(35 656 418)	(35 656 418)
Total changes	(35 656 418)	(35 656 418)
Balance at 30 June 2011	**1 379 557 929**	**1 379 557 929**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		143 459 309	102 263 631
Grants		48 995 241	44 302 051
Interest income		96 802	79 490
		192 551 352	146 645 172
Payments			
Employee costs		(62 747 004)	(54 886 278)
Suppliers		(116 069 427)	(63 833 165)
Finance costs		(3 219 937)	(2 373 004)
		(182 036 368)	(121 092 447)
Net cash flows from operating activities	30	**10 514 984**	**25 552 728**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(24 875 953)	(25 220 428)
Proceeds from sale of property, plant and equipment	3	29 923	311 920
Purchase of other intangible assets	4	(175 490)	-
Decrease in other financial assets		(9 620)	(5 259)
Net cash flows from investing activities		**(25 031 140)**	**(24 913 767)**
Cash flows from financing activities			
Decrease in other financial liabilities		(1 060 688)	(1 173 942)
Net cash flows from financing activities		**(1 060 688)**	**(1 173 942)**
Net increase/(decrease) in cash and cash equivalents		**(15 576 844)**	**(534 981)**
Cash and cash equivalents at the beginning of the year		(3 353 365)	(2 818 384)
Cash and cash equivalents at the end of the year	10	**(18 930 209)**	**(3 353 365)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous year.

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 / Held to maturity investments and/or loans and receivables

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

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

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

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 13 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows. In the event that different rates were used, clear indication of the rate and reasons are given in the applicaple note.

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.

1.2 Investment property

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

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

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

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and 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:

Accounting Policies

1.2 Investment property (continued)

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

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would

Accounting Policies

1.3 Property, plant and equipment (continued)
be determined using fair value at the end of the reporting period.

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

Item	**Average useful life**
Buildings	30 years
Plant and machinery	5 years
Furniture and fixtures	5 years
Motor vehicles	4 years
Office equipment	5 years
Computer Hardware	3 years
Computer software	2 years
Infrastructure	
• Roads and Paving	10 years
• Pedestrian Malls	20 years
• Electricity	20 years
• Water	20 years
• Sewerage	20 years
Community	
• Buildings	30 years
• Recreational Facilities	30 years
• Taxi Ranks	10 years
• Stadiums	30 years
Bins and containers	10 years
Farming Machinery	5 years
Investment property	
• Land	indefinite
• Buildings	30 years
Specialised vehicles	5 - 10 years

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

1.4 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 municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality 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.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit under (a). If a revaluation is necessary, all assets of that class are revalued.

Accounting Policies

1.5 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

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

Item	Useful life
Computer software	2 years

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

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

Accounting Policies

1.6 Financial instruments

Classification

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

- Loans and receivables
- Available-for-sale financial assets
- 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. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

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

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

1.6 Financial instruments (continued)

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

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

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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 / (from) economic entities

These include loans to and from controlling entities, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

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

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

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.6 Financial instruments (continued)

Gains and losses

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

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

Derecognition

Financial assets

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

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

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

Financial liabilities

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

Accounting Policies

1.7 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.8 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

Accounting Policies

1.9 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.10 Non-current assets held for sale and disposal groups

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

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

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

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Value in use

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)
potential to a cash-generating unit.

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Accounting Policies

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

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

1.13 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.

Accounting Policies

1.13 Employee benefits (continued)

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

Other post retirement obligations

The municipality provides post-retirement health care benefits.

Per the Accounting Standards Board (ASB) Directive 5, the Municipality may account for this liability under the Statement of Generally Recognised Accounting Practice 25 (GRAP25), which is based on IAS19.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The liability for in-service members is accrued over their expected working lifetimes using the projected credit method. Independent qualified actuaries carry out valuations of these obligations.

The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

Accounting Policies

1.14 Provisions and contingencies (continued)

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

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.

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

Accounting Policies

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

- 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.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

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.

1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.18 Investment income

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

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.22 Fruitless and wasteful expenditure

Accounting Policies

1.22 Fruitless and wasteful expenditure (continued)

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.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of ''unauthorised expenditure''.

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

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

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

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

1.24 Use of estimates

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

1.25 Presentation of currency

These annual financial statements are presented in South African Rand.

1.26 Offsetting

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

1.27 Investments

Accounting Policies

1.27 Investments (continued)

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

1.28 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.

1.29 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.30 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.31 Budget information

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

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

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

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 early adopted

The municipality has chosen to early adopt the following standards and interpretations:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

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

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

The impact of the interpretation is not material.

2.3 Standards and interpretations issued, but not yet effective

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

GRAP 18: Segment Reporting

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 23: Revenue from Non-exchange Transactions

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

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

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

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

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

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

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the standard is not material.

GRAP 103: Heritage Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:

- on disposal, or

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

The impact of the standard is not material.

GRAP 21: Impairment of non-cash-generating assets

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

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

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

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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

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

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

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

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

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

The impact of the standard is not material.

GRAP 26: Impairment of cash-generating assets

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

The impact of the standard is not material.

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.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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:

- 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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- 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 has early adopted the standard for the first time in the 2011 annual financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

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

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

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

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

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

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

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

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

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	273 418 688	-	273 418 688	-	-	-
Buildings	620 031 711	(428 942 163)	191 089 548	47 034 855	-	47 034 855
Plant and machinery	1 270 418	-	1 270 418	599 819	-	599 819
Furniture and fixtures	1 921 602	-	1 921 602	455 425	-	455 425
Motor vehicles	912 734	-	912 734	912 734	-	912 734
Office equipment	617 836	-	617 836	135 700	-	135 700
IT equipment	1 503 491	-	1 503 491	840 789	-	840 789
Computer software	135 088	(29 052)	106 036	135 088	(592)	134 496
Infrastructure	1 521 551 223	(523 496 163)	998 055 060	71 540 277	-	71 540 277
Community	1 553 916	-	1 553 916	1 352 315	-	1 352 315
Total	**2 422 916 707**	**(952 467 378)**	**1 470 449 329**	**123 007 002**	**(592)**	**123 006 410**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Revaluations**	**Depreciation**	**Total**
Land	-	-	-	5 118 970	268 299 718	-	273 418 688
Buildings	47 034 855	1 474	-	(5 118 970)	151 687 749	(2 515 560)	191 089 548
Plant and machinery	599 819	670 599	-	-	-	-	1 270 418
Furniture and fixtures	455 425	1 466 177	-	-	-	-	1 921 602
Motor vehicles	912 734	-	-	-	-	-	912 734
Office equipment	135 700	482 136	-	-	-	-	617 836
IT equipment	840 789	662 702	-	-	-	-	1 503 491
Computer software	134 496	-	(28 460)	-	-	-	106 036
Infrastructure	71 540 277	21 391 264	-	-	938 140 545	(33 017 026)	998 055 060
Community	1 352 315	201 601	-	-	-	-	1 553 916
	123 006 410	**24 875 953**	**(28 460)**	**-**	**1 358 128 012**	**(35 532 586)**	**1 470 449 329**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Buildings	46 277 556	2 649 477	(1 892 178)	47 034 855
Plant and machinery	874 615	4 465	(279 261)	599 819
Furniture and fixtures	599 985	6 051	(150 611)	455 425
Motor vehicles	1 333 440	644	(421 350)	912 734
Office equipment	141 357	48 516	(54 173)	135 700
IT equipment	1 023 298	270 131	(452 640)	840 789
Computer software	-	135 088	(592)	134 496
Infrastructure	55 298 845	20 651 001	(4 409 569)	71 540 277
Community	22 613	1 455 055	(125 353)	1 352 315
	105 571 709	**25 220 428**	**(7 785 727)**	**123 006 410**

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.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	175 490	-	175 490	-	-	-

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Total
Computer software	-	175 490	175 490

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Other financial assets

Loans and receivables		
Eskom deposit	6 690	6 690
Investment held The investment is held to secure a guarentee issued to Magalies water.	818 858	809 238
	825 548	**815 928**
Non-current assets		
Loans and receivables	825 548	815 928

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.

A amount of R800,000 is held as security by Magalies Water.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.

Figures in Rand	2011	2010

6. Retirement benefits

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Carrying value

Unfunded Accrued Liability	(16 826 904)	(15 642 267)

Net expense recognised in the statement of financial performance

Current service cost	546 436	483 665
Contributions (benefits paid)	(765 552)	(625 932)
Interest cost	1 403 753	1 457 689
Actuarial (gains) losses	-	(1 848 993)
	1 184 637	**(533 571)**

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Discount rates used	10.77 %	10.77 %
Health care cost inflation rate	9.63 %	9.63 %

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 9.19% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2010. This rate does not reflect any adjustment for taxation.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.
A health care cost inflation rate of 7.26% has been assumed. This is 1.75% in excess of expected CPI inflation over the expected term of the liability, namely 5.51%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.81% which derives from (9.19%-7.26%)/1.0726.

The expected inflation assumption of 5.51% was obtained from the differential between market yields on index-linked bonds and bonds consistent with the estimated term of the liabilities (3.02%) and those of nominal bonds (9.19%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: (9.19% - 0.50% - 3.02%) / 1.0302.

The next contribution increase was assumed to occur with effect from 1 January 2011.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Inventories

Water	56 403	-

The stores has been closed as per council resolution no:EC101/201 dated 28 July 2010.

8. Trade and other receivables from exchange transactions

Trade debtors	873 592	970 234
WDM fire fighting	61 370	61 370
Sundry debtors	19 615	17 730
	954 577	**1 049 334**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Consumer debtors

Gross balances		
Rates	44 505 567	36 405 101
Electricity	9 005 233	8 353 547
Water	12 062 963	12 592 468
Sewerage	6 530 102	6 572 704
Refuse	6 132 447	6 391 054
Other	3 707 951	9 362 753
	81 944 263	**79 677 627**
Less: Provision for debt impairment		
Rates	(39 959 971)	(31 482 737)
Electricity	(3 468 129)	(3 711 205)
Water	(10 810 648)	(9 602 811)
Sewerage	(5 613 492)	(4 911 644)
Refuse	(4 898 222)	(4 808 687)
Other	(5 996 416)	(9 025 542)
	(70 746 878)	**(63 542 626)**
Net balance		
Rates	4 545 596	4 922 364
Electricity	5 537 104	4 642 342
Water	1 252 315	2 989 657
Sewerage	916 610	1 661 060
Refuse	1 234 225	1 582 367
Discounting	(2 784 201)	(5 466 297)
Other	495 730	337 211
	11 197 379	**10 668 704**
Rates		
Current (0 -30 days)	3 275 026	4 906 644
31 - 60 days	2 417 650	1 566 793
61 - 90 days	1 785 953	1 454 007
91 - 120 days	1 793 657	1 536 841
121 - 365 days	35 233 281	26 940 816
	44 505 567	**36 405 101**
Water, electricity and sewerage		
Current (0 -30 days)	4 706 750	5 806 154
31 - 60 days	1 995 211	1 117 638
61 - 90 days	2 125 320	883 602
91 - 120 days	1 276 255	1 022 624
121 - 365 days	17 494 762	18 688 701
	27 598 298	**27 518 719**
Refuse and other		
Current (0 -30 days)	578 647	927 498
31 - 60 days	320 747	263 303
61 - 90 days	297 983	253 804
91 - 120 days	272 408	231 518
121 - 365 days	8 370 612	14 077 683
	9 840 397	**15 753 806**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Consumer debtors (continued)

Summary of debtors by customer classification

Government		
Current (0 -30 days)	337 817	359 261
31 - 60 days	132 413	113 204
61 - 90 days	638 562	124 531
+91 days	2 093 348	2 089 999
	3 202 140	**2 686 995**
Business		
Current (0 -30 days)	2 192 800	2 503 372
31 - 60 days	582 975	366 948
61 - 90 days	444 432	291 526
+91 days	6 629 347	5 030 844
	9 849 554	**8 192 690**
House hold		
Current (0 -30 days)	4 773 980	6 776 791
31 - 60 days	3 090 204	1 793 614
61 - 90 days	2 216 679	1 461 961
+91 days	45 186 313	40 701 617
	55 267 176	**50 733 983**
Other		
Current (0 -30 days)	1 255 826	2 000 872
31 - 60 days	928 016	763 968
61 - 90 days	909 584	912 966
+91 days	18 780 140	11 884 740
	21 873 566	**15 562 546**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(63 542 626)	(47 633 959)
Contributions to provision	(4 420 052)	(15 908 667)
Debt impairment written off against provision	(2 784 200)	-
	(70 746 878)	**(63 542 626)**

Reconciliation of provision for impairment of consumer debtors

Provision for impairment	(2 784 200)	-
Amounts written off as uncollectible	(4 420 052)	-
	(7 204 252)	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 014	2 212
Short-term deposits	1 488 613	1 447 595
Bank overdraft	(20 420 836)	(4 803 172)
	(18 930 209)	**(3 353 365)**
Current assets	1 490 627	1 449 807
Current liabilities	(20 420 836)	(4 803 172)
	(18 930 209)	**(3 353 365)**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
ABSA BANK - Current Account - 1330000062	1 024 759	2 154 097	419 525	(20 420 836)	(4 803 172)	(555 439)
ABSA BANK - Call Account - 9079442012	994 301	959 503	919 441	994 301	959 503	919 441
ABSA BANK - Call Account - 4073741532	259 833	249 896	203 214	259 833	249 896	203 214
Standard Bank Limited - Cheque Account - 032224621	3 687	4 472	5 307	3 687	4 472	5 307
FNB Limited - Call Account - 62045841485	230 866	233 724	225 071	230 866	233 724	225 071
Total	**2 513 446**	**3 601 692**	**1 772 558**	**(18 932 149)**	**(3 355 577)**	**797 594**

11. Other financial liabilities

Held at amortised cost		
INCA Loan 00-003-7509 Capital : R13,000,000 Interest rate : 10.69% Redeemable : 30 June 2027 Repayable : Monthly Instalments Security : Unsecured	12 242 804	13 170 630
INCA Loan 00-0002-391 Capital : R6,000,000 Interest rate : 14.80% Redeemable : 30 June 2012 Repayable : Bi - Annual Security : Unsecured	1 060 450	1 193 312
	13 303 254	**14 363 942**
Non-current liabilities		
At amortised cost	11 810 546	13 170 630
Current liabilities		
At amortised cost	1 492 708	1 193 312
	13 303 254	**14 363 942**

Refer to appendix A for more detail on the loans.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal systems Improvement grant	21 835	461 222
DME grant	2 931 336	(68 664)
DWAF grant	6 912	96 452
Municipal infrastructure grant	(692 574)	92 009
Finance management grant	(285 511)	(126 034)
Housing grants	11 346	11 346
	1 993 344	**466 331**

Movement during the year

Balance at the beginning of the year	466 331	1 954 196
Additions during the year	48 995 241	42 898 719
Income recognition during the year	(47 468 228)	(44 386 584)
	1 993 344	**466 331**

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

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Provision for 13th cheque	2 675 716	-	-	-	2 675 716
Provision for performance bonuses	472 460	-	(472 460)	-	-
Long Service award provision	1 226 188	321 454	-	-	1 547 642
Provision for land fill site	12 830 802	-	-	244 396	13 075 198
	17 205 166	**321 454**	**(472 460)**	**244 396**	**17 298 556**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Provision for 13th cheque	2 016 515	1 207 387	-	(548 186)	2 675 716
Provision for performance bonuses	701 832	-	(229 372)	-	472 460
Long service award provision	1 078 371	385 003	(237 186)	-	1 226 188
Provision for land fill site	12 756 446	-	-	74 356	12 830 802
	16 553 164	**1 592 390**	**(466 558)**	**(473 830)**	**17 205 166**

Non-current liabilities	13 075 198	12 830 802
Current liabilities	4 223 358	4 374 364
	17 298 556	**17 205 166**

The Employer's Unfunded Accrued Liability for Long Service Awards at 30 June 2011 is estimated at R 1,547,642. The Current-service Cost for the years ending 30 June 2010 and 30 June 2011 are estimated at R 200,651 and R 244,541 respectively.

Performance bonuses are paid one year in arrears as the assessment of eligible employees has taken place and bonuses paid out at the reporting date, no present obligations exist.

14. Trade and other payables from exchange transactions

Trade creditors	13 049 052	4 840 581
Payments received in advance	8 248 172	8 352 430
Retensions	252 906	880 993
Accrued leave pay	7 941 216	5 922 044
Tender guaranties	740 701	309 979
Retention creditors	171 800	1 544 679
	30 403 847	**21 850 706**

15. VAT payable

Tax refunds payables	2 256 285	2 401 754

16. Consumer deposits

Deposits received	3 088 398	2 834 438

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

17. Revenue

Property rates	37 781 651	34 483 697
Service charges	74 982 927	64 808 343
Rental of facilities and equipment	228 928	300 140
Fines	1 228 134	1 670 699
Licences and permits	7 200 879	7 614 655
Government grants and subsidies	47 461 681	44 302 051
	168 884 200	**153 179 585**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	74 982 927	64 808 343
Rental of facilities	228 928	300 140
Licences and permits	7 200 879	7 614 655
	82 412 734	**72 723 138**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	37 781 651	34 483 697
Fines	1 228 134	1 670 699
Government grants and subsidies	47 461 681	44 302 051
	86 471 466	**80 456 447**

18. Property rates

Rates received

Total assessment rates received	37 781 651	34 483 697

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.0095 (2010: R 0.0090) is applied to property valuations to determine assessment rates. Rebates of 20% (2010: 20%) are granted to residential and state property owners.

Interest at 18% per annum is levied on outstanding rates.

The new general valuation will be implemented on 01 July 2012.

19. Service charges

Sale of electricity	53 439 971	45 372 617
Sale of water	9 670 776	8 961 856
Solid waste	5 987 644	5 039 858
Sewerage and sanitation charges	5 884 536	5 434 012
	74 982 927	**64 808 343**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. Government grants and subsidies

Finance Management Grant	1 152 930	750 000
Municipal Systems Improvement Grants	1 189 387	735 000
Equitable Share	35 685 057	27 123 221
Municipal Infrastructure Grant	9 400 583	13 830 830
DWAF Grant	33 724	563 000
DME Grant	-	1 300 000
	47 461 681	**44 302 051**

Equitable Share

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

Municipal Systems Improvement Grant

Balance unspent at beginning of year	461 222	461 222
Current year receipts	750 000	735 000
Conditions met - transferred to revenue	(1 189 387)	(735 000)
	21 835	**461 222**

Conditions still to be met - remain liabilities (see note 12)

Revenue Enhancement Grant

Balance unspent at beginning of year	-	561 044
Conditions met - transferred to revenue	-	(561 044)
	-	**-**

Department of Mineral and Energy Grant

Balance unspent at beginning of year	(68 664)	1 000 000
Current year receipts	3 000 000	1 300 000
Conditions met - transferred to revenue	-	(2 368 664)
	2 931 336	**(68 664)**

Conditions still to be met - remain liabilities (see note 12)

Department of Water and Forestry Grant

Balance unspent at beginning of year	96 452	365 000
Current year receipts	-	563 000
Conditions met - transferred to revenue	(33 725)	(831 548)
Outstanding receipts	(55 815)	-
	6 912	**96 452**

Conditions still to be met - remain liabilities (see note 12)

Cattle Pound Grant

Balance unspent at beginning of year	-	364 300
Conditions met - transferred to revenue	-	(364 300)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. Government grants and subsidies (continued)

Project Management Grant

Balance unspent at beginning of year	-	566 989
Conditions met - transferred to revenue	-	(566 989)
	-	**-**

Municipal Infrastructure Grant

Balance unspent at beginning of year	430 986	-
Current year receipts	8 616 000	13 830 830
Transfer from Radium Hydroponic Grant	-	-
Transfer from Revenue Enhancement Grant	-	561 044
Transfer from Cattle Pound Grant	-	364 300
Transfer from PMU	-	566 989
Conditions met - transferred to revenue	(9 400 583)	(13 399 844)
	(353 597)	**430 986**

Conditions still to be met - remain liabilities (see note 12)

Finance Management Grant

Balance unspent at beginning of year	(126 034)	(302 191)
Current year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 159 477)	(823 843)
	(285 511)	**(126 034)**

Conditions still to be met - remain liabilities (see note 12)

Housing Grant

Balance unspent at beginning of year	11 346	805 973
Conditions met - transferred to revenue	-	(794 627)
	11 346	**11 346**

Conditions still to be met - remain liabilities (see note 12)

Community Based Grant

Balance unspent at beginning of year	-	921 087
Conditions met - transferred to revenue	-	(921 087)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. General expenses

Actuarial loss	-	441 332
Advertising	557 277	591 100
Auditors remuneration	1 547 837	1 418 171
Bank charges	2 072 871	1 239 156
Capacity building	705 114	147 760
Chemicals	626 917	614 818
Community development and training	23 503	-
Community outreach program	515 422	443 721
Consulting and professional fees	4 442 065	3 615 654
Contractor services	8 369 278	7 830 779
Delegation costs	633 094	587 544
Equitable share levy	2 849 175	2 185 499
IT expenses	3 477 328	2 282 443
Lease rentals on operating lease	111 363	149 098
Local economic development	418 099	424 594
Meter reading	1 198 398	544 247
Other expenditure	4 750 374	3 584 086
Printing and stationery	923 292	522 239
Risk and asset management	1 238 030	1 963 034
Telephone and fax	1 034 812	1 058 846
Travel - local	2 067 772	2 999 840
Uniforms	350 403	302 712
Valuation costs	469 247	336 699
	38 381 671	**33 283 372**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. Employee related costs

Basic	55 440 693	47 204 154
Current Service Cost	-	1 048 838
Medical aid - company contributions	736 504	988 664
Overtime payments	3 100 427	2 884 032
Skills Development Levy	282 521	346 955
Transport allowance (bus coupons)	3 102 729	2 413 635
Unemployment Insurance Funds	84 130	-
	62 747 004	**54 886 278**

Remuneration of municipal manager

Annual Remuneration	928 525	483 317
Performance Bonuses	-	57 460
Other allowances	30 156	208 856
	958 681	**749 633**

Remuneration of chief finance officer

Annual Remuneration	792 000	413 762
Other allowances	20 400	199 176
	812 400	**612 938**

Corporate and human resources (corporate services)

Annual Remuneration	714 948	381 502
Car Allowance	-	36 587
Other allowances	18 000	178 124
	732 948	**596 213**

Health, safety and social services (emergency management services)

Annual Remuneration	650 000	162 500
Other allowances	18 000	-
	668 000	**162 500**

Procurements and infrastructure (planning, transport and environmental affairs)

Annual Remuneration	711 898	216 667
Other allowances	21 000	-
	732 898	**216 667**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Remuneration of councillors

Mayor	600 710	555 340
Chief Whip	455 020	373 387
Executive Committee Members	706 603	674 805
Speaker	484 157	472 335
Councillors	1 860 220	1 779 772
	4 106 710	**3 855 639**

In-kind benefits

The Mayor and speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council. The cost of the house is viewed at 50% as a fringe benefit. The Mayor has use of a Council owned vehicle for official duties.

24. Investment revenue

Interest revenue		
Bank	96 802	79 490

25. Depreciation

Property, plant and equipment	35 561 046	7 785 726

26. Finance costs

Trade and other payables	-	78 135
Bank	-	820
Current borrowings	1 571 788	1 506 971
Fair value adjustments on consumer debtors	-	700 369
Other interest paid	1 648 149	86 709
	3 219 937	**2 373 004**

27. Auditors' remuneration

Fees	1 547 837	1 418 171

28. Operating lease

The Municipality has entered into a contractual agreement with Konika Minolta, whereby the municipality rents copiers and then are charged on useage during the period. The total payments made to Konika Minolta was R30,090 for the year.

No straight lining was possible as there are no fixed minimum payments due to Konika Minolta, and the Municipality has no obligation for any repairs and maintenance to the use of the equipment.

29. Bulk purchases

Electricity	42 183 335	26 477 163
Water	4 087 397	2 902 943
	46 270 732	**29 380 106**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

30. Cash generated from operations

(Deficit)/surplus	(35 656 418)	11 683 547
Adjustments for:		
Depreciation	35 561 046	7 785 726
Loss on sale of assets and liabilities	(1 463)	-
Impairment deficit	2 784 201	-
Debt impairment	13 989 299	15 911 616
Movements in retirement benefit assets and liabilities	1 184 637	1 429 062
Movements in provisions	93 390	(1 141 036)
Changes in working capital:		
Inventories	(56 403)	160 371
Trade and other receivables from exchange transactions	(2 689 444)	985 524
Consumer debtors	(14 882 507)	(18 368 994)
Trade and other payables from exchange transactions	8 553 142	4 849 842
VAT	(145 469)	3 505 001
Unspent conditional grants and receipts	1 527 013	(1 487 865)
Consumer deposits	253 960	239 934
	10 514 984	**25 552 728**

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Operational vehicle leases	8 438 756	1 065 743
• Landfill site	619 630	619 630
• Retension	880 993	880 993
• External loans	14 365 530	14 365 530
• MIG	4 578 605	4 578 605
	28 883 514	**21 510 501**

Not yet contracted for and authorised by accounting officer		
• Community	200 000	200 000
• Infrastructure	21 453 000	21 453 000
	21 653 000	**21 653 000**

32. Contingencies

TN Molefe Consulting Services CC/ Bela Bela Local Municipality
TN Molefe Consulting Services were appointed for the project - Rehabilitation of Streets - on 26 Aug 2008 by means of a written appointment letter. The Municipality was summoned on 16 August 2010 for professional services rendered during 3 December 2008 to 12 January 2009. By 21 October 2010 the instruction was given to Council's Attorneys to defend. Should the case (no: 200/2010) be successful the municipality does not have insurance cover to cover litigation costs and claims. The Municipality will be liable to pay the amount claimed of R542,198.19 including interest thereon at 15.5% per annum and costs of suit.

T Nkhumishe/ Bela Bela Local Municipality
Litigation is in the process against the municipality relating to a dispute with T Nkhumishe was dismissed on 6 February 2009 after receiving his last salary in January 2009. He appealed his case to SALGA and won his case to be reinstated with immediate effect. The Municipality re-appealed to the Labour court and this case still awaits finalisation. Should the action be successful the municipality does not have insurance cover to cover litigation costs and claims. The total obligation for 29 months is estimated at R 253 356.40 which is calculated until 30 June 2011 .

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	Refer to the information page of the financial statements

Related party transactions

Rental income received from Councillors and employees		
Councillors and employees	84 452	-

34. Prior period errors

Demand Charges were classified as Other Revenue in the Statement of Financial Performance. This amount should rather be classified as part of Trade and other Payables in the Statement of Financial Position. The municipality is liable to provide the service as demanded by the customer as per an official quote. Amounts received in advance will be used to fund expenditure in order to provide the service. Services are not provided with the intend to realise a profit.

The provision for the land fill site was understated with R12,136,816. The municipality obtained the new valuation from an acreditted service provider.

The correction of the errors resulted in adjustment as follows:

Statement of financial position		
Trade and other payables	-	921 764
Provisions	-	(12 136 816)
Accumulated surpluses	-	12 136 816
Statement of financial performance		
Other Revenue	-	(921 764)

Figures in Rand	2011	2010

35. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member's and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 11, cash and cash equivalents disclosed in note 10, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to member's, return capital to member's, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

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

Liquidity risk

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

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. 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 board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

36. Unauthorised expenditure

Unauthorised expenditure	25 067 358	-

37. Irregular expenditure

Opening balance	-	1 887 419
Add: Irregular Expenditure - current year	169 087	-
Less: Amounts condoned	-	(1 887 419)
	169 087	**-**

38. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

No payments were made during the year.

Audit fees

Current year subscription / fee	1 547 837	1 418 171
Amount paid - current year	(1 547 837)	(1 418 171)
	-	**-**

PAYE and UIF

Current year subscription / fee	16 412 570	4 823 983
Amount paid - current year	(16 412 570)	(4 823 983)
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	13 930 884	8 081 854
Amount paid - current year	(13 930 884)	(8 081 854)
	-	**-**

VAT

VAT payable	2 256 285	2 401 754

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

39. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E1 for the comparison of actual operating expenditure versus budgeted expenditure.

40. 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.

There were deviations incurred in the financial year under review. A detailed register can be obtained from the Office of Municipal Manager.

Notes to the Annual Financial Statements

Figures in Rand

41. Statement of comparative and actual information

2011

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	31 139 177	34 143 777		34 143 777	37 781 651		(3 637 874)	111 %	121 %
Service charges	64 557 815	70 472 646		70 472 646	74 982 927		(4 510 281)	106 %	116 %
Investment revenue	822 289	851 339		851 339	96 802		754 537	11 %	12 %
Transfers recognised - operational	44 432 127	48 863 182		48 863 182	47 461 681		1 401 501	97 %	107 %
Other own revenue	27 889 609	30 219 598		30 219 598	16 580 695		13 638 903	55 %	59 %
Total revenue (excluding capital transfers and contributions)	**168 841 017**	**184 550 542**		**184 550 542**	**176 903 756**		**7 646 786**	**96 %**	**105 %**
Employee costs	(61 580 346)	(66 638 054)	-	(66 638 054)	(62 747 004)	-	(3 891 050)	94 %	102 %
Debt impairment	(1 117 240)	(1 302 040)		(1 302 040)	(13 989 299)	12 687 259	12 687 259	1 074 %	1 252 %
Depreciation and asset impairment	(7 065 648)	(7 630 048)		(7 630 048)	(38 345 247)	-	30 715 199	503 %	543 %
Finance charges	(2 654 926)	(2 786 782)	-	(2 786 782)	(3 219 937)	188 759	433 155	116 %	121 %
Materials and bulk purchases	(31 041 030)	(34 135 795)	-	(34 135 795)	(46 270 732)	12 191 340	12 134 937	136 %	149 %
Other expenditure	(66 779 243)	(71 262 746)	-	(71 262 746)	(47 987 955)	-	(23 274 791)	67 %	72 %
Total expenditure	**(170 238 433)**	**(183 755 465)**	**-**	**(183 755 465)**	**(212 560 174)**	**25 067 358**	**28 804 709**	**116 %**	**125 %**
Surplus/(Deficit)	**(1 397 416)**	**795 077**		**795 077**	**(35 656 418)**		**36 451 495**	**(4 485)%**	**2 552 %**

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Surplus/(Deficit) for the year	**(1 397 416)**	**795 077**		**795 077**	**(35 656 418)**		**36 451 495**	**(4 485)%**	**2 552 %**

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Total capital expenditure	(138 193)	(129 810)	-	(129 810)	23 675 750	-	(23 805 560)	(18 239)%	(17 132)%
Appendix A: Schedule of external loans									

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2011 Rand
Annuity loans						
INCA	BELA-00-0002	JUNE 2012	2 777 191	-	797 196	1 979 995
INCA	BELA-00-0003	JUNE 2023	11 646 992	-	231 507	11 415 485
INCA	BELA-0044-9593	JUNE 2027	983 200	-	14 738	968 462
ABSA	71830379	AUGUST 2009	129 562	-	129 562	-
			-	-	-	-
			-	-	-	-
			-	-	-	-
			15 536 945	**-**	**1 173 003**	**14 363 942**

Supplementary Information

Appendix B: Analysis of property, plant and equipment

Bela Bela Local Municipality
Bela Bela Local Municipality
Appendix B
June 2011

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

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Buildings	47 034 855	1 474	-	-	419 987 467	-	**467 023 796**	(426 426 603)	-	-	(2 515 560)	-	**(428 942 163)**	38 081 633
	47 034 855	**1 474**	**-**	**-**	**419 987 467**	**-**	**467 023 796**	**(426 426 603)**	**-**	**-**	**(2 515 560)**	**-**	**(428 942 163)**	**38 081 633**
Infrastructure														
Infrastructure	71 540 277	21 391 264	-	-	938 140 545	-	**1 031 072 086**	(490 479 137)	-	-	(33 017 026)	-	**(523 496 163)**	507 575 923
	71 540 277	**21 391 264**	**-**	**-**	**938 140 545**	**-**	**1 031 072 086**	**(490 479 137)**	**-**	**-**	**(33 017 026)**	**-**	**(523 496 163)**	**507 575 923**
Community Assets														
Community Assets	1 352 315	201 601	-	-	-	-	**1 553 916**	(5 712)	-	-	(125 354)	-	**(131 066)**	1 422 850
	1 352 315	**201 601**	**-**	**-**	**-**	**-**	**1 553 916**	**(5 712)**	**-**	**-**	**(125 354)**	**-**	**(131 066)**	**1 422 850**

Bela Bela Local Municipality
Bela Bela Local Municipality
Appendix B
June 2011

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

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets														
General vehicles	912 734	-	-	-	-	**-**	**912 734**	(6 615 292)	-	-	(421 349)	-	**(7 036 641)**	(6 123 907)
Plant & equipment	599 819	670 599	-	-	-	**-**	**1 270 418**	(3 809 285)	-	-	(279 260)	-	**(4 088 545)**	(2 818 127)
Computer Equipment	840 789	662 702	-	-	-	**-**	**1 503 491**	(1 041 715)	-	-	(452 640)	-	**(1 494 355)**	9 136
Computer Software	134 496	-	(28 460)	-	-	**-**	**106 036**	-	-	-	(592)	-	**(592)**	105 444
Furniture & Fittings	455 425	1 466 177	-	-	-	**-**	**1 921 602**	(848 122)	-	-	(150 611)	-	**(998 733)**	922 869
Office Equipment	135 700	482 136	-	-	-	**-**	**617 836**	(292 755)	-	-	(54 173)	-	**(346 928)**	270 908
	3 078 963	**3 281 614**	**(28 460)**	**-**	**-**	**-**	**6 332 117**	**(12 607 169)**	**-**	**-**	**(1 358 625)**	**-**	**(13 965 794)**	**(7 633 677)**
Total property plant and equipment														
Land and buildings	47 034 855	1 474	-	-	419 987 467	**-**	**467 023 796**	(426 426 603)	-	-	(2 515 560)	-	**(428 942 163)**	38 081 633
Infrastructure	71 540 277	21 391 264	-	-	938 140 545	**-**	**1 031 072 086**	(490 479 137)	-	-	(33 017 026)	-	**(523 496 163)**	507 575 923
Community Assets	1 352 315	201 601	-	-	-	**-**	**1 553 916**	(5 712)	-	-	(125 354)	-	**(131 066)**	1 422 850
Other assets	3 078 963	3 281 614	(28 460)	-	-	**-**	**6 332 117**	(12 607 169)	-	-	(1 358 625)	-	**(13 965 794)**	(7 633 677)
	123 006 410	**24 875 953**	**(28 460)**	**-**	**1 358 128 012**	**-**	**1 505 981 915**	**(929 518 621)**	**-**	**-**	**(37 016 565)**	**-**	**(966 535 186)**	**539 446 729**
Agricultural/Biological assets														
Intangible assets														
Computers - software & programming	-	175	-	-	-	**-**	**175**	-	-	-	-	-	**-**	175
	-	**175**	**-**	**-**	**-**	**-**	**175**	**-**	**-**	**-**	**-**	**-**	**-**	**175**
Investment properties														
Total														
Land and buildings	47 034 855	1 474	-	-	419 987 467	**-**	**467 023 796**	(426 426 603)	-	-	(2 515 560)	-	**(428 942 163)**	38 081 633
Infrastructure	71 540 277	21 391 264	-	-	938 140 545	**-**	**1 031 072 086**	(490 479 137)	-	-	(33 017 026)	-	**(523 496 163)**	507 575 923
Community Assets	1 352 315	201 601	-	-	-	**-**	**1 553 916**	(5 712)	-	-	(125 354)	-	**(131 066)**	1 422 850
Other assets	3 078 963	3 281 614	(28 460)	-	-	**-**	**6 332 117**	(12 607 169)	-	-	(1 358 625)	-	**(13 965 794)**	(7 633 677)
Intangible assets	-	175	-	-	-	**-**	**175**	-	-	-	-	-	**-**	175
	123 006 410	**24 876 128**	**(28 460)**	**-**	**1 358 128 012**	**-**	**1 505 982 090**	**(929 518 621)**	**-**	**-**	**(37 016 565)**	**-**	**(966 535 186)**	**539 446 904**

Supplementary Information

Appendix D: Segmental Statement of Financial Performance

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
70 671 861	46 686 690	23 985 171	Executive & Council/Mayor and Council	84 351 587	44 758 632	39 592 955
832 510	14 835 462	(14 002 952)	Finance & Admin/Finance	443 227	13 070 728	(12 627 501)
131 078	5 445 716	(5 314 638)	Planning and Development/Economic Development/Plan	113 376	5 061 255	(4 947 879)
-	1 808 141	(1 808 141)	Health/Clinics	-	2 495 248	(2 495 248)
5 198 302	11 768 104	(6 569 802)	Comm. & Social/Libraries and archives	6 235 916	14 008 051	(7 772 135)
263 153	277 964	(14 811)	Public Safety/Police	129 204	39 278	89 926
5 435 120	1 741 692	3 693 428	Waste Water Management/Sewerage	5 696 006	913 937	4 782 069
9 285 354	19 423 193	(10 137 839)	Road Transport/Roads	8 429 013	20 126 068	(11 697 055)
9 537 916	11 974 027	(2 436 111)	Water/Water Distribution	10 731 679	14 353 655	(3 621 976)
47 008 831	33 112 851	13 895 980	Electricity /Electricity Distribution	55 730 063	50 593 670	5 136 393
148 364 125	**147 073 840**	**1 290 285**		**171 860 071**	**165 420 522**	**6 439 549**
			Municipal Owned Entities			
			Other charges			
148 364 125	147 073 840	1 290 285	Municipality	171 860 071	165 420 522	6 439 549
148 364 125	**147 073 840**	**1 290 285**	**Total**	**171 860 071**	**165 420 522**	**6 439 549**

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Bela Bela Local Municipality
Appendix E(1)
June 2011

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

	Current year 2010 Act. Bal. Rand	Current year 2010 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	37 244 142	34 143 777	3 100 365	9.1	
Service charges	75 069 483	70 472 646	4 596 837	6.5	
Rental of facilities and equipment	228 921	1 206 290	(977 369)	(81.0)	
Interest received (trading)	6 470 582	5 296 422	1 174 160	22.2	
Fines	1 228 134	4 004 000	(2 775 866)	(69.3)	
Licences and permits	7 200 879	10 716 867	(3 515 988)	(32.8)	
Government grants & subsidies	49 143 057	48 863 182	279 875	0.6	
Other income 1	2 171 942	1 797 500	374 442	20.8	
Other income	1 718 930	6 863 348	(5 144 418)	(75.0)	
Interest received - investment	-	851 339	(851 339)	(100.0)	
	180 476 070	184 215 371	(3 739 301)	(2.0)	
Expenses					
Personnel	(61 100 064)	(66 638 054)	5 537 990	(8.3)	
Depreciation	-	(7 630 048)	7 630 048	(100.0)	
Finance costs	(1 465 142)	(2 786 782)	1 321 640	(47.4)	
Debt impairment	(9 569 247)	(1 302 040)	(8 267 207)	634.9	
Repairs and maintenance - General	(9 769 052)	(9 634 001)	(135 051)	1.4	
Bulk purchases	(46 401 722)	(34 135 795)	(12 265 927)	35.9	
General Expenses	(38 972 190)	(61 628 745)	22 656 555	(36.8)	
	(167 277 417)	(183 755 465)	16 478 048	(9.0)	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	1 316	335 172	(333 856)	(99.6)	
	1 316	335 172	(333 856)	(99.6)	
Net surplus/ (deficit) for the year	13 199 969	795 078	12 404 891	560.2	