



Saldanha Bay Municipality  
Annual financial statements  
for the year ended 30 June 2011

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## General Information

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<b>Legal form of entity</b>	South African local Municipality as defined by the Municipal Structures Act (Act no 117 of 1998)
<b>Nature of business and principal activities</b>	Saldanha Bay Municipality is a local municipality performing the functions as set out in the Constitution (Act no 105 of 1996)
<b>Grading of local authority</b>	High Capacity Grade 9
<b>Accounting Officer</b>	J Fortuin
<b>Chief Finance Officer (CFO)</b>	J van Coller (Acting)
<b>Business address</b>	12 Main Street Vredenburg Western Cape 7380
<b>Postal address</b>	Private Bag X12 Vredenburg Western Cape 7380
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	Auditor General
<b>Attorneys</b>	Utilise attorneys in the Municipal Area

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Index

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

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### Abbreviations

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 76, and Appendices A to K, 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:

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**Accounting Officer**

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
<b>Assets</b>			
Current Assets			
Inventories	4	3 794 135	3 542 566
Trade and other receivables from non-exchange transactions	6	28 002 668	33 242 107
Trade and other receivables from exchange transactions	7	68 573 313	60 623 028
Operating lease assets		327 340	318 827
Cash and cash equivalents	8	452 433 314	407 175 346
		<b>553 130 770</b>	<b>504 901 874</b>
Non-Current Assets			
Investment property	9	3 335 000	1 125 000
Property, plant and equipment	10	2 046 629 024	2 011 606 978
Intangible assets	11	1 475 796	1 674 582
		<b>2 051 439 820</b>	<b>2 014 406 560</b>
Non-current assets held for sale and assets of disposal groups	12	7 140	-
<b>Total Assets</b>		<b>2 604 577 730</b>	<b>2 519 308 434</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	13	10 489 260	10 177 831
Finance lease obligation	14	273 933	2 992
Operating lease liability	15	65 033	-
Trade and other payables from exchange transactions	16	64 997 673	55 536 016
VAT payable		3 161 598	3 714 351
Consumer deposits	17	11 024 705	10 194 969
Retirement benefit obligation	19	330 000	699 000
Unspent conditional grants and receipts	18	20 172 840	5 878 609
		<b>110 515 042</b>	<b>86 203 768</b>
Non-Current Liabilities			
Other financial liabilities	13	77 672 426	68 504 313
Finance lease obligation	14	1 308 968	245
Retirement benefit obligation	19	56 389 000	49 875 205
Provisions	20	48 693 208	46 374 484
		<b>184 063 602</b>	<b>164 754 247</b>
<b>Total Liabilities</b>		<b>294 578 644</b>	<b>250 958 015</b>
<b>Net Assets</b>		<b>2 309 999 086</b>	<b>2 268 350 419</b>
<b>Net Assets</b>			
Accumulated surplus		2 309 999 086	2 268 350 419

# Saldanha Bay Municipality

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## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>			
Property rates	25	106 499 256	105 189 487
Service charges	26	327 932 701	270 729 465
Property rates - penalties imposed and collection charges	25	4 556 368	4 361 628
Rental of Facilities and Equipment	27	9 547 611	9 182 102
Interest received - Outstanding Debtors		1 917 647	1 715 768
Income from agency services		2 573 611	2 397 226
Fines		2 511 497	2 847 757
Licences and permits		1 399 070	1 364 268
Government grants & subsidies	28	62 085 906	46 199 024
Other - Contribution to Bad Debt Ex Housing		388 969	(216 405)
Other - Discount from Creditors		722 119	500 678
Other - Building Plan Fees		1 706 292	499 082
Other Income		3 789 984	4 642 886
Interest earned - Bank and Call Deposits	30	27 546 018	28 290 646
<b>Total Revenue</b>		<b>553 177 049</b>	<b>477 703 612</b>
<b>Expenditure</b>			
Employee Related Costs	31	(142 860 212)	(123 896 468)
Remuneration of councilors	32	(6 088 067)	(5 755 882)
Inventory Written Off		(96 972)	(39 477)
Depreciation	33	(73 708 917)	(75 107 646)
Impairment on Landfill Site		(2 318 724)	(25 774 484)
Finance costs	34	(8 280 582)	(6 007 931)
Debtors impairment	35	(14 700 955)	(4 880 053)
Collection costs		(168 050)	(263 406)
Repairs and maintenance		(29 507 991)	(23 480 343)
Bulk purchases	36	(147 624 386)	(116 182 815)
Grants and subsidies paid	37	(19 560 755)	(15 230 185)
General Expenses	38	(61 149 003)	(49 542 876)
Housing Schemes Top Structures Written out	38	-	(25 439)
Contribution to Post Retirement Medical Aid	38	(8 110 000)	(8 686 205)
<b>Total Expenditure</b>		<b>(514 174 614)</b>	<b>(454 873 210)</b>
Gain/(loss) on disposal of assets		641 095	(871 651)
Fair value adjustments		2 210 000	-
<b>Surplus for the year</b>		<b>41 853 530</b>	<b>21 958 751</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Changes in Net Assets

Figures in Rand	Share capital / contributions from owners	Accumulated surplus	Total net assets
Opening balance as previously reported	-	807 909 202	807 909 202
Adjustments			
Errors re omitted infrastructure assets	-	10 296 884	10 296 884
Prior year adjustments	-	949 521 306	949 521 306
<b>Balance at 01 July 2009 as restated</b>	<b>-</b>	<b>1 767 727 392</b>	<b>1 767 727 392</b>
Changes in net assets			
Transfer from capitalisation reserve	-	(19 171 711)	(19 171 711)
Transfer to CRR	-	(48 981 294)	(48 981 294)
• Errors on Income Statement	-	38 468 116	38 468 116
Property, Plant and Equipment purchased (Note 20)	-	34 213 171	34 213 171
Interest on Housing Development Fund	-	(2 210 268)	(2 210 268)
Capital Grants used to purchase PPE (Note 20)	-	(11 939 927)	(11 939 927)
Movement in internal reserves (Note 20)	-	16 742 597	16 742 597
Insurance claim processed (Note 20)	-	117 477	117 477
Correction to impairment on debtors	-	7 238 161	7 238 161
Surplus for the year	-	21 958 751	21 958 751
Total recognised income and expenses for the year	-	29 196 912	29 196 912
Prior Period errors	-	471 426 115	471 426 115
Movement re surplus for all income statement prior period errors	-	500 623 027	500 623 027
<b>Balance at 01 July 2010</b>	<b>-</b>	<b>2 268 350 422</b>	<b>2 268 350 422</b>
Changes in net assets			
Surplus for the year	-	41 853 530	41 853 530
Offsetting of depreciation	-	2 756 838	2 756 838
Transfer to Capital Replacement Reserve (Note 20)	-	(50 021 097)	(50 021 097)
Property, Plant and Equipment Purchased (Note 20)	-	60 317 039	60 317 039
Insurance Claims Processed (Note 20)	-	102 005	102 005
Capital grants used to purchase Property, Plant and Equipment (Note 20)	-	(34 353 898)	(34 353 898)
Interest on Housing Development Fund	-	(1 989 173)	(1 989 173)
Movement in internal reserves (Note 20)	-	22 983 420	22 983 420
Total changes	-	41 648 664	41 648 664
<b>Balance at 30 June 2011</b>	<b>-</b>	<b>2 309 999 086</b>	<b>2 309 999 086</b>

Note(s)

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from ratepayers, government and others		525 851 651	419 361 020
Interest income		27 546 018	28 290 646
		<u>553 397 669</u>	<u>447 651 666</u>
<b>Payments</b>			
Employee costs		(148 948 279)	(129 652 350)
Suppliers		(254 063 306)	(201 992 065)
Finance costs		(8 255 937)	(5 997 205)
		<u>(411 267 522)</u>	<u>(337 641 620)</u>
<b>Undefined difference compared to the cash generated from operations note</b>		<b>(1)</b>	<b>-</b>
<b>Net cash flows from operating activities</b>	<b>39</b>	<b><u>142 130 146</u></b>	<b><u>110 010 046</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(108 824 066)	(62 428 267)
Proceeds from sale of property, plant and equipment	10	1 489 132	908 642
Purchase of other intangible assets	11	(563 292)	(347 915)
Proceeds from sale of other intangible assets	11	-	9 798
Operating lease asset		(8 513)	(119 099)
		<u>(107 906 739)</u>	<u>(61 976 841)</u>
<b>Net cash flows from investing activities</b>		<b><u>(107 906 739)</u></b>	<b><u>(61 976 841)</u></b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		9 479 542	15 472 230
Finance lease payments		1 555 019	(20 816)
		<u>11 034 561</u>	<u>15 451 414</u>
<b>Net cash flows from financing activities</b>		<b><u>11 034 561</u></b>	<b><u>15 451 414</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>45 257 968</b>	<b>63 484 619</b>
Cash and cash equivalents at the beginning of the year		<u>407 175 346</u>	<u>343 690 727</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b><u>452 433 314</u></b>	<b><u>407 175 346</u></b>



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

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

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

##### Loans and receivables

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

##### Allowance for slow moving, damaged and obsolete stock

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

##### Fair value estimation

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

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

##### Impairment testing

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

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 20 - Provisions.

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Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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

#### Useful lives of infrastructure and other assets

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

#### Post retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

#### Effective interest rate

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

#### Debtors Impairment

The provision for impairment is measured with reference to historical data and payment trend analysis per group of consumers and/or category. An impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired.

### 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.

#### Fair value

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

Fair value is determined by using the last available general valuation roll or market related valuations. investment property

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 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 year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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.

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Land is not depreciated and are deemed to have an indefinite useful life.

<b>Item</b>	<b>Average useful life</b>
Infrastructure	
• Water	6 - 50
• Roads and paving	6 - 80
• Electricity	6 - 50
• Sewerage	5 - 99
• Pedestrian Malls	20
• Housing	20 - 30
• Security	3 - 5
Community Assets	
• Land and Buildings	30
• Recreational Facilities	20 - 30
• Other Community Assets	30
Other Assets	
• Land and Buildings	30
• Specialist Vehicles	15
• Office Equipment	3 - 5
• Furniture and Fittings	7
• Bins and Containers	5 - 15
• Emergency Equipment	5 - 15
• Motor Vehicles	3 - 20
• Specialist Plant and Equipment	5 - 15
• Airports	15 - 20
• Gas	20
• Landfill Sites	15

The residual value, and the useful life of each asset are reviewed at least annually.

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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

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. The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at least annually. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 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 a 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:

- 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.

### 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 that are attributable to the asset will flow to the municipality; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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.
- 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. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.5 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at least annually.

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

Internally generated brands, valuation roll, 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, other	3 years

Intangible assets are derecognised:

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

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

### 1.6 Financial instruments

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

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

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

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

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

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.6 Financial instruments (continued)

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

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

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

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

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

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### 1.6 Financial instruments (continued)

#### Classification

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

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

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

<b>Class</b>	<b>Category</b>
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

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

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

#### Fair value measurement considerations

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

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

The municipality assess at least annually whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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

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



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.6 Financial instruments (continued)

Financial assets measured at cost:

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

- Additional text

### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

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

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

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Presentation

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

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

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

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

### 1.7 Leases

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

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.8 Inventories

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

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

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

- distribution at no charge or for a nominal charge; or

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.8 Inventories (continued)

- 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 weighted average cost 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.

### 1.9 Non-current assets held for sale and disposal groups

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

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

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

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

### 1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

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

Useful life is either:

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

#### Identification

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

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

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

### 1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Useful life is either:

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

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Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.11 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 annually whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Restoration cost approach

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

#### Service units approach

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.12 Employee benefits

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

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

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

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

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

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



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.13 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 41.

### 1.14 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.14 Revenue from exchange transactions (continued)

#### Rendering of services

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

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

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

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

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

#### Interest, royalties and dividends

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

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

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

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

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

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

### 1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.15 Revenue from non-exchange transactions (continued)

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

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

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

#### Recognition

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

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

#### Measurement

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

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

#### Transfers

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

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

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

#### Fines

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

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

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

#### Bequests

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

#### Gifts and donations, including goods in-kind

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

#### Services in-kind

Services in-kind are not recognised.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.16 Investment income

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

### 1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

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

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

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

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

### 1.18 Comparative figures

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

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.20 Fruitless and wasteful expenditure

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.21 Irregular expenditure

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

Irregular expenditure that was incurred and identified during the current financial year and 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.

### 1.22 Use of estimates

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

### 1.23 Presentation of currency

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

### 1.24 Offsetting

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

### 1.25 Internal reserves

#### Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the Capital Replacement Reserve (CRR) in terms of a Council resolution. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The following provisions are set for the creation and utilisation of the CRR:

- The cash which backs up the CRR is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the municipality;
- Interest earned on the CRR investment is recorded as part of total interest earned in the Statement of Financial Performance. The total interest earned on all the CRR investments of the municipality is transferred to the CRR;
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and may not be used for the maintenance of these items;
- The CRR is reduced and the accumulated surplus/(deficit) credited with corresponding amounts when the funds are utilised;
- If a gain or loss is made on the sale of assets the gain or loss on the sale of assets is reflected in the Statement of Financial Performance;
- The amounts transferred to the CRR are based on the municipality's need to finance future capital projects;
- The contribution to the CRR by the relevant votes will be based on the previous year's cost price of the fixed assets controlled by that votes. The Council has six strategic votes as defined by the Municipal Finance Management Act, 2003 (Act 56 of 2003);
- The Council determines annually to contribute between 8% and 12% of the previous year's own income to the CRR;
- The current year's contribution may only be utilised for financing of capital expenditure in the following year.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.25 Internal reserves (continued)

#### Housing Development Fund

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

#### Self insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (excess payments). The balance of the Self-Insurance Reserve is ringfenced within the accumulated surplus/(deficit).

Claims not fully covered by external insurance are financed from the insurance reserve by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The balance of the self-insurance fund is fully cash backed and is invested in fixed and short-term call deposits.

### 1.26 Revaluation reserve

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

### 1.27 Investments

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

### 1.28 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 Budget information

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

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

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



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year, except for the change listed below:

#### Government Grant Reserve

During the year, the municipality changed its accounting policy with respect to the treatment of the Government Grant reserve. In order to conform with the general treatment throughout all South African municipalities they wrote off the reserve in total back to the accumulated surplus. The net effect on future periods is zero on the accumulated surplus.

### 3. New standards and interpretations

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

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

##### GRAP 18: Segment Reporting

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

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

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

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

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

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

The impact of this standard is currently being assessed.

##### 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 entity.

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 an amount equal to that reduction.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

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

The impact of this standard is currently being assessed.

### 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 entity 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 2011.

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

The impact of this standard is currently being assessed.

### 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.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

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

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

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

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:

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

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

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

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

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

#### **GRAP 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.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

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

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 2012.

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

The impact of this standard is currently being assessed.

#### **GRAP 26: Impairment of cash-generating assets**

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

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

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

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

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

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

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

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 2012.

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

The impact of this standard is currently being assessed.

#### **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 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;

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

- 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.
- 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 2012.

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

The impact of this standard is currently being assessed.

#### **GRAP 104: Financial Instruments**

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

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

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

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

Financial assets and financial liabilities are initially recognised at fair value. Where 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 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.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

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 2012.

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

The impact of this amendment is currently being assessed.

### 4. Inventories

Consumable stores - at cost	3 680 507	3 425 960
Water - at cost	113 628	116 606
	<u>3 794 135</u>	<u>3 542 566</u>
Carrying value of inventories carried at lower of cost and net realisable value.	3 794 135	3 542 566

During the year an amount of R96 972 (2010 - R39 477) was written off to the Statement of Financial Performance.



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>5. Other financial assets</b>		
<b>Loans and receivables</b>		
Housing Selling Scheme Loans	1 522 626	1 695 264
	<u>1 522 626</u>	<u>1 695 264</u>
Loans and receivables (impairments)	(1 522 626)	(1 695 264)
	<u>-</u>	<u>-</u>

### Loans and receivables impaired

As of 30 June 2011, loans and receivables of R1 522 626 (2010: R1 695 264) were impaired and provided for.

### Credit quality of other financial assets

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

### 6. Trade and other receivables from non-exchange transactions

Trade debtors	21 929 291	27 050 143
Prepaid expenditure	80 370	-
Unpaid Conditional Grants and Subsidies	2 505 165	5 623 062
Sundry Debtors	3 487 842	568 902
	<u>28 002 668</u>	<u>33 242 107</u>

### Other receivables from non-exchange transactions pledged as security

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

Immaterial other receivables from non-exchange transactions' credit ratings were not reviewed nor impaired due to no or limited external credit ratings or historical information available.

### Fair value of other receivables from non-exchange transactions

Other receivables from non-exchange transactions	28 002 667	33 242 107
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The fair value has been determined by using the face value of the outstanding capital.

### 7. Trade and other receivables from exchange transactions

<b>Gross balances</b>		
Rates	27 769 764	25 247 750
Electricity	12 174 180	9 457 329
Water	31 329 734	22 255 938
Sewerage	16 067 894	12 925 794
Refuse	14 282 999	10 951 794
Sundry Debtors	3 668 258	3 632 503
Housing rental	10 307 259	9 992 912
	<u>115 600 088</u>	<u>94 464 020</u>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>7. Trade and other receivables from exchange transactions (continued)</b>		
<b>Less: Provision for bad debts</b>		
Rates	(6 577 769)	(8 180 448)
Electricity	(1 498 950)	(986 370)
Water	(13 140 881)	(5 209 002)
Sewerage	(8 405 575)	(5 767 544)
Refuse	(7 096 341)	(3 889 424)
Housing rental	(10 307 259)	(9 808 204)
	<b>(47 026 775)</b>	<b>(33 840 992)</b>
<b>Net balance</b>		
Rates	21 191 995	17 067 302
Electricity	10 675 230	8 470 959
Water	18 188 853	17 046 936
Sewerage	7 662 319	7 158 250
Refuse	7 186 658	7 062 370
Sundry Debtors	3 668 258	3 632 503
Housing rental	-	184 708
	<b>68 573 313</b>	<b>60 623 028</b>
<b>Rates</b>		
Current (0 -30 days)	6 348 542	4 821 290
31 - 60 days	844 525	710 058
61 - 90 days	748 647	1 112 215
91 - 120 days	876 938	508 229
121 - 365 days	6 944 053	4 955 031
> 365 days	5 429 290	4 960 479
	<b>21 191 995</b>	<b>17 067 302</b>
<b>Electricity</b>		
Current (0 -30 days)	9 616 930	7 469 420
31 - 60 days	119 114	79 896
61 - 90 days	117 015	63 507
91 - 120 days	110 227	55 378
121 - 365 days	410 158	380 743
> 365 days	301 786	422 015
	<b>10 675 230</b>	<b>8 470 959</b>
<b>Water</b>		
Current (0 -30 days)	6 888 338	4 810 126
31 - 60 days	695 933	600 270
61 - 90 days	719 338	524 536
91 - 120 days	615 910	482 178
121 - 365 days	4 052 089	3 514 334
> 365 days	5 217 245	7 115 492
	<b>18 188 853</b>	<b>17 046 936</b>
<b>Sewerage</b>		
Current (0 -30 days)	1 469 858	1 337 715
31 - 60 days	304 286	264 783
61 - 90 days	264 035	233 646
91 - 120 days	243 312	219 180
121 - 365 days	2 033 864	1 800 762
> 365 days	3 346 964	3 302 164
	<b>7 662 319</b>	<b>7 158 250</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>7. Trade and other receivables from exchange transactions (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	1 643 664	1 565 584
31 - 60 days	314 207	281 852
61 - 90 days	291 225	240 320
91 - 120 days	266 194	225 854
121 - 365 days	1 799 914	1 603 208
> 365 days	2 871 454	3 145 552
	<b>7 186 658</b>	<b>7 062 370</b>
<b>Sundry Debtors - Billing</b>		
Current (0 -30 days)	1 303 967	1 014 848
31 - 60 days	131 716	134 582
61 - 90 days	97 539	133 587
91 - 120 days	107 389	108 886
121 - 365 days	996 107	1 668 613
> 365 days	1 031 540	571 987
	<b>3 668 258</b>	<b>3 632 503</b>
<b>Housing rental</b>		
Current (0 -30 days)	-	36 561
31 - 60 days	-	27 904
61 - 90 days	-	22 548
91 - 120 days	-	184 879
121 - 365 days	-	289 635
> 365 days	-	(376 819)
	-	<b>184 708</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	18 167 968	13 227 958
31 - 60 days	2 553 503	2 248 138
61 - 90 days	2 369 541	2 086 041
91 - 120 days	2 194 206	2 023 449
121 - 365 days	15 966 439	14 226 636
> 365 days	46 987 471	34 055 607
	88 239 128	67 867 829
Less: Provision for bad debts	(35 774 020)	(22 618 137)
	<b>52 465 108</b>	<b>45 249 692</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	13 510 531	13 714 684
31 - 60 days	537 992	738 986
61 - 90 days	512 679	1 233 106
91 - 120 days	577 253	447 999
121 - 365 days	3 990 212	4 112 864
> 365 days	5 317 773	3 290 647
	24 446 440	23 538 286
Less: Provision for bad debts	(9 819 642)	(9 668 207)
	<b>14 626 798</b>	<b>13 870 079</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>7. Trade and other receivables from exchange transactions (continued)</b>		
<b>National and provincial government</b>		
Current (0 -30 days)	1 290 214	728 235
31 - 60 days	20 187	16 616
61 - 90 days	32 188	35 002
91 - 120 days	48 589	13 722
121 - 365 days	644 596	1 716 025
> 365 days	878 747	548 304
	<u>2 914 521</u>	<u>3 057 904</u>
Less: Provision for bad debts	(1 433 113)	(1 554 649)
	<u><b>1 481 408</b></u>	<u><b>1 503 255</b></u>
<b>Total</b>		
Current (0 -30 days)	32 968 711	27 670 877
31 - 60 days	3 111 682	3 003 740
61 - 90 days	2 914 408	3 354 150
91 - 120 days	2 820 048	2 485 170
121 - 365 days	20 601 248	20 055 525
> 365 days	53 183 991	37 894 558
	<u>115 600 088</u>	<u>94 464 020</u>
Less: Provision for bad debts	(47 026 775)	(33 840 992)
	<u><b>68 573 313</b></u>	<u><b>60 623 028</b></u>
<b>Less: Provision for debt impairment</b>		
Current (0 -30 days)	(5 697 491)	(6 615 333)
31 - 60 days	(701 901)	(904 396)
61 - 90 days	(676 609)	(1 023 789)
91 - 120 days	(600 078)	(700 587)
121 - 365 days	(4 365 062)	(5 843 198)
> 365 days	(34 985 634)	(18 753 689)
	<u><b>(47 026 775)</b></u>	<u><b>(33 840 992)</b></u>

### Credit quality of trade and other receivables

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

### Fair value of trade and other receivables

Trade and other receivable from exchange transactions	<u>68 573 313</u>	<u>60 623 028</u>
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The fair value has been determined by using the face value of the outstanding capital.

### Trade and other receivable from exchange transactions impaired

The municipality calculated the payment trends per service over the past 24 months in order to ensure that trade and other receivables from exchange transactions are shown at the fair value.

As of 30 June 2011, trade and other receivables from exchange transactions of R47 026 775 (2010: R33 840 992) were impaired and provided for.

Bad debts of R1 515 171 (2010: R74 039) (inclusive of VAT) was written off during the year.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>8. Cash and cash equivalents (continued)</b>		
Cash on hand	15 514	13 824
Bank balances	92 417 800	22 161 522
Short-term deposits	360 000 000	385 000 000
	<b>452 433 314</b>	<b>407 175 346</b>

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information.

### 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
Standard Bank - Cheque Account - 08 243 7238	102 956 099	22 623 652	50 146 498	92 417 800	22 161 522	48 677 652

The fair value has been determined by using the face value of the outstanding capital.

Refer to Appendix H for a detailed breakdown of the short term call deposits.

The different institutions have external credit ratings.

### 9. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	3 335 000	-	3 335 000	1 125 000	-	1 125 000

### Reconciliation of investment property - 2011

	Opening balance	Fair value adjustments	Total
Investment property	1 125 000	2 210 000	3 335 000

### Reconciliation of investment property - 2010

	Opening balance	GRAP 3 - Depreciation Reversal	Total
Investment property	1 124 605	395	1 125 000
Fair value of investment properties		3 335 000	1 125 000

### Other disclosures

During the year depreciation of R395 were rolled back. This depreciation relates to a prior period error and were dealt with in accordance with GRAP 3 Prior Period Errors. Refer to note 42.

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.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 9. Investment property (continued)

#### Details of valuation

The effective date of the revaluations was 21 February 2011. Revaluations were performed by an independent valuer, Mr NH Marais, of M3 Wellington. M3 Wellington are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation for the land portion was based on adapted comparable sales and for the improvements there-on on depreciated replacement costs.

These assumptions are based on current market conditions and is considered a fair value.

### 10. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	493 089 490	-	493 089 490	486 738 988	-	486 738 988
Buildings	185 769 776	(74 305 015)	111 464 761	180 838 064	(69 092 288)	111 745 776
Infrastructure	2 277 501 087	(1 018 287 243)	1 259 213 844	2 226 729 826	(955 748 058)	1 270 981 768
Community	32 044 495	(17 087 120)	14 957 375	26 610 172	(16 552 644)	10 057 528
Other property, plant and equipment	164 003 981	(97 381 548)	66 622 433	148 638 601	(94 488 263)	54 150 338
Capital work in progress	99 760 466	-	99 760 466	77 930 713	-	77 930 713
Leased Assets	1 639 932	(119 277)	1 520 655	14 000	(12 133)	1 867
<b>Total</b>	<b>3 253 809 227</b>	<b>(1 207 180 203)</b>	<b>2 046 629 024</b>	<b>3 147 500 364</b>	<b>(1 135 893 386)</b>	<b>2 011 606 978</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Disposals	Classified as held for sale	Transfers	Landfill Site	Change in Accounting Estimate	Depreciation	Impairment loss	Total
Land	486 738 988	6 500 000	(149 498)	-	-	-	-	-	-	493 089 490
Buildings	111 745 776	4 743 070	(21 000)	-	209 643	-	2 847	(5 215 575)	-	111 464 761
Infrastructure	1 270 981 768	10 650 086	-	-	40 121 176	-	-	(62 539 186)	-	1 259 213 844
Community	10 057 528	4 154 233	-	-	1 280 089	-	-	(505 021)	(29 454)	14 957 375
Other property, plant and equipment	54 150 338	17 684 809	(652 264)	(7 140)	-	2 318 724	3 995 655	(8 385 635)	(2 482 054)	66 622 433
Capital work in progress	77 930 713	63 465 936	(25 275)	-	(41 610 908)	-	-	-	-	99 760 466
Leased Assets	1 867	1 625 932	-	-	-	-	-	(107 144)	-	1 520 655
	<b>2 011 606 978</b>	<b>108 824 066</b>	<b>(848 037)</b>	<b>(7 140)</b>	<b>-</b>	<b>2 318 724</b>	<b>3 998 502</b>	<b>(76 752 561)</b>	<b>(2 511 508)</b>	<b>2 046 629 024</b>

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

	Opening balance	Additions	Disposals and GRAP 3 Prior Period Error	Transfers	Landfill Site	GRAP 3 Prior Period Errors	Depreciation and Impairment	Impairment loss	Total
Land	487 189 000	-	(752 298)	-	-	302 286	-	-	486 738 988
Buildings	111 633 824	6 747 125	-	530 990	-	2 679 546	(9 845 709)	-	111 745 776
Infrastructure	1 316 482 305	7 412 077	-	8 437 049	25 774 483	(29 195 136)	(32 154 527)	(25 774 483)	1 270 981 768
Community	12 254 098	1 350 957	-	228 571	-	(3 188 651)	(587 447)	-	10 057 528
Other property, plant and equipment	49 672 996	6 581 643	(1 027 995)	1 158 810	-	5 557 690	(7 792 806)	-	54 150 338
Capital work in progress	48 336 262	40 336 465	-	(10 742 014)	-	-	-	-	77 930 713
Leased Assets	404 751	-	-	(402 884)	-	-	-	-	1 867
	<b>2 025 973 236</b>	<b>62 428 267</b>	<b>(1 780 293)</b>	<b>(789 478)</b>	<b>25 774 483</b>	<b>(23 844 265)</b>	<b>(50 380 489)</b>	<b>(25 774 483)</b>	<b>2 011 606 978</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

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

#### Other Information

During the year the following main transactions/events occurred on the asset register:

1. Work in progress are shown separately as required by GRAP standards
2. During the year buildings and other assets were reviewed and this resulted in a material difference. Accumulated depreciation to the amount of R37 563 and R20 222 973 were rolled back on buildings and other assets. Refer to note 42.
3. The municipality identified non-current assets held for sale with a carrying amount of R7 140. The non-current assets were transferred to Non-Current Assets held for sale. Refer note 12.
4. All assets were tested for impairment during the year. Community assets and other assets was impaired with R29 454 and R2 482 054 prospectively..
5. Asset categories were reviewed during the year and this resulted in the assets carrying value moving over to the new asset categories. This resulted in a Prior Period Error. Refer note 42.
6. All infrastructure items were reviewed and unbundled during the 2010 year. A few assets were not accounted for in the initial unbundling of infrastructure assets. This resulted in a a Prior Period Error. Refer note 42.
7. The municipality obtained a loan from Nedbank. The original loan amount was R21 400 000. The loan agreement stated that the assets purchased by way of this loan must be ceded to Nedbank until the loan has been repaid. The balance outstanding on the loan as at 30 June 2011 is R10 696 085 and the carrying value of the assets purchased by way of this loan is R14 033 687 as at 30 June 2011. Refer to note 13.

#### Borrowing costs capitalised

Capital work in progress	281 336	861 686
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Capitalisation rates used during the year were the prime lending rate as determined by the Reserve Bank.

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

Leased Assets	1 520 655	1 867
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#### Other information

#### Property, plant and equipment (Carrying amount)

Property, plant and equipment carried at cost	2 046 629 024	2 011 606 978
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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.

### 11. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, Externally Generated	5 068 047	(3 592 251)	1 475 796	4 504 757	(2 830 175)	1 674 582

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 674 582	563 292	(762 078)	1 475 796

#### Reconciliation of intangible assets - 2010



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 11. Intangible assets (continued)

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Computer software, other	984 443	347 915	(9 798)	789 478	(437 456)	1 674 582

#### Other information

Intangible assets have finite lives. The estimated remaining useful life is reviewed at each reporting period.

### 12. Discontinued operations or disposal groups or non-current assets held for sale

The municipality will dispose certain assets after year end. The assets were identified and written down to net realisable value. The cost of assets to be disposed after year end is R62 992 and the accumulated depreciation is R55 852. The net book value of assets held for sale is R7 140.

### 13. Other financial liabilities

#### Held at amortised cost

Other Financial Liabilities	77 672 426	68 504 313
Other financial liabilities - Current Portion	10 489 260	10 177 831
	<b>88 161 686</b>	<b>78 682 144</b>

Refer to Appendix A for a detailed breakdown of the External Loans.

Total current portion of Other Financial Liabilities of R10 489 260 (2010: R10 177 831) are cash backed.

The municipality obtained a loan from Nedbank. The original loan amount was R21 400 000. The loan agreement stated that the assets purchased by way of this loan must be ceded to Nedbank until the loan has been repaid. The balance outstanding on the loan as at 30 June 2011 is R10 696 085 and the carrying value of the assets purchased by way of this loan is R14 033 687 as at 30 June 2011. Refer to note 10.

#### Non-current liabilities

At amortised cost	77 672 426	68 504 313
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#### Current liabilities

At amortised cost	10 489 260	10 177 831
	<b>88 161 686</b>	<b>78 682 144</b>

#### Fair value of the financial liabilities carried at amortised cost

Loans and Receivables	88 161 686	78 682 144
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The fair values of the financial liabilities has been determined by using the face values as determined by the different institutions and the balance shown is the face value of the outstanding capital.

The institutions have external credit ratings.

### 14. Finance lease obligation

#### Minimum lease payments due

- within one year including finance charges	405 304	3 409
- in second to fifth year including finance charges	1 552 577	284
	1 957 881	3 693
less: future finance charges	(374 980)	(456)
<b>Present value of minimum lease payments</b>	<b>1 582 901</b>	<b>3 237</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>14. Finance lease obligation (continued)</b>		
<b>Present value of minimum lease payments due</b>		
- within one year excluding finance charges	273 933	2 992
- in second to fifth year excluding finance charges	1 308 968	245
	<b>1 582 901</b>	<b>3 237</b>
Non-current liabilities	1 308 968	245
Current liabilities	273 933	2 992
	<b>1 582 901</b>	<b>3 237</b>

The average lease term was 5 - 6 years.

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

### 15. Operating lease accrual

This amounts originated from smoothing future rental expenses. In the future the municipality will pay this amount more.

### 16. Trade and other payables from exchange transactions

Trade payables	46 756 442	37 542 829
Debtors received in advance	3 483 397	4 308 567
Other payables	1 374 252	1 035 185
Accrued leave pay	7 739 835	7 467 585
Accrued bonus	4 992 464	4 505 029
Long Service Awards	605 184	600 757
VAT on housing debtors	128 984	138 398
Provision for bad debt re VAT on housing debtors	(128 984)	(138 398)
Rounding Difference	-	1
Deposits Received	46 099	76 063
	<b>64 997 673</b>	<b>55 536 016</b>

### Fair value of trade and other payables

Trade payables	46 756 442	37 542 829
Other Payables	18 241 231	17 993 187
	<b>64 997 673</b>	<b>55 536 016</b>

The fair value of the financial liability was determined by accepting the face values of the outstanding capital.

### 17. Consumer deposits

Electricity	6 602 972	6 008 239
Water	4 421 733	4 186 730
	<b>11 024 705</b>	<b>10 194 969</b>

### 18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Various unspent conditional grants	20 172 840	5 878 609
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# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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Figures in Rand	2011	2010
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### 18. Unspent conditional grants and receipts (continued)

All unspent conditional grants are ring fenced in short-term call deposits until utilised.

Refer to Appendix I for a detailed breakdown of all unspent conditional grants.

### 19. Employee benefit obligations

#### Defined benefit plan

#### Post retirement medical aid plan

The valuation was performed by K Schumann from Old Mutual Actuaries Consulting (Pty) Ltd. Old Mutual Actuaries Consulting (Pty) Ltd is not connected to the municipality. The full actuarial valuation report are available on request.

The Post retirement medical aid plan consists of the Bonitas, Hosmed, Key Health, LA Health, Pro Sano and Samwumed medical aid funds.

The total in-service employees belonging to Medical Scheme as at 30 June 2011 were 306 and the total continuation employees receiving the medical aid benefit as at 30 June 2011 were 79.

The method of funding prescribed by IAS 19 is called the "Projected Unit Method". Under this method the accrued service liabilities are determined by projecting all future payments which will be made by the employer in respect of benefits accrued up to the Valuation Date. Assumptions are made in respect of, inter-alia, medical scheme contribution increases, withdrawals, deaths and ill-health, early and normal retirements. These payments are discounted at the valuation rate of discount to determine the present value of the liabilities at the Valuation Date.

Saldanha Bay Municipality employees and their dependants are currently entitled to a subsidy of 70% of the required medical scheme contributions after they retire or the employee dies. In-service members are entitled to a subsidy of 60% of the contribution payable. The cost of this subsidy is currently met from annual revenue earned by the municipality. No reserves have therefore been established in order to meet these costs.

Accounting standard IAS19 (AC116) states that all employment costs must be funded during a person's working lifetime. This not only ensures that the organization reflects the true cost of performing its tasks, but also provides employees with more security since funds are set aside to meet these costs.

The results presented in this report depend heavily on certain actuarial assumptions. The most important of these are the following:

#### Real rate of return

The differential between the assumed rate of discount and the escalation in future medical scheme contributions is the most important relationship. In calculating the liability we have assumed a differential of 1.50% (a discount rate of 8.70% and 7.20% for medical scheme contribution increases). A smaller differential would result in greater liabilities than those shown in this report and visa versa.

#### Maintenance of the current contribution tables and current cross-subsidisation inherent in these rates

The current Medical Scheme contribution tables can legally only differentiate contributions on the basis of income and number of dependants, though differences in age are the primary driver of medical scheme costs.

Any changes in the underlying structure of the membership of schemes, especially an increase in the age profile, could therefore have a marked impact on the contribution tables.

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

#### Present value of the defined benefit obligation

Present value of the defined benefit obligation	<u>(56 719 000)</u>	<u>(50 574 205)</u>
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# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>19. Employee benefit obligations (continued)</b>		
Non-current liabilities	(56 389 000)	(49 875 205)
Current liabilities	(330 000)	(699 000)
	<b>(56 719 000)</b>	<b>(50 574 205)</b>

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

Opening balance	(50 574 205)	(43 364 000)
Benefits paid	1 960 000	1 476 000
Net expense recognised in the statement of financial performance	(8 110 000)	(8 686 205)
	<b>(56 724 205)</b>	<b>(50 574 205)</b>

### Net expense recognised in the statement of financial performance

Current service cost	(2 290 000)	(2 175 000)
Interest cost	(4 570 000)	(3 581 000)
Actuarial (gains) losses	(1 250 000)	(2 930 205)
	<b>(8 110 000)</b>	<b>(8 686 205)</b>

### Key assumptions used

Assumptions used on last valuation on Thursday, June 30, 2011.

Discount rates used	8.70 %	9.20 %
Long-term expected medical inflation rate	7.20 %	7.22 %
Discount rate less medical inflation	1.50 %	1.85 %

IAS 19 specifies that the assumptions made should represent the employer's prudent best estimates of the variables that will determine the ultimate cost of the benefit. The following assumptions are generally required:

- mortality during and after employment;
- rates of employers turnover, disability and early retirement;
- details of future dependents of members who are eligible for benefits;
- the discount rate;
- future salary, contribution and/or benefit levels;
- expected rate of return on separate assets.

In determining future benefits levels consideration must be given to whether only the expected future contribution levels, which may involve various cross-subsidies between various groups of members, should be projected, or whether the actual underlying claims of post retirement members should be considered. As per the previous valuation, no allowance has been made for the following:

- The actual cost of medical aid claim by employees and pensioners from medical aid;
- The effect of material change in the average age of members of the medical aids; or
- The effect of any change by the medical aid member, due to their changing needs as they get older or for any other reason, from one medical aid option to another, or from one medical aid to another.

No allowance is made for any inherent cross-subsidies between in-service employees and pensioners in the actual cost of medical claims by each of these groups.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

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### 19. Employee benefit obligations (continued)

The various assumptions made are set out below:

#### Discount rate

The discount rate reflects the time value of money. The discount rate together with the assumed rate of medical scheme contribution inflation has the largest effect on the value of the benefit calculated. The relative level of these assumptions with regard to each other is therefore much more important than their absolute values.

The absolute values are chosen with regard to the long-term nature of the liability and IAS 19 specifies that it must be derived from the market yields of government bonds with corresponding terms and currency as at the statement of financial position date.

We employed a discount rate of 8.70%. This rate was deducted from the yield curve obtained from the Bond Exchange of South Africa after the market closed on 30 June 2011. The rate does not reflect any adjustment for taxation.

#### Withdrawals

Allowance was made for the withdrawals of existing members. The withdrawal rates applicable to the municipality Employee Pension Fund were used for this purpose. I am satisfied that these assumptions are reasonable since they reflect low turnover of staff. No benefit is paid on withdrawal and using withdrawal rates therefore results in a lower liability than would otherwise have been required.

The rates of withdrawal are shown in Table 1

#### New Entrants

No allowance was made for future new entrants.

#### Ill-health

We have assumed that members will retire at their retirement ages shown below (as per Table 1). Prior to those ages we have allowed for ill-health retirement at the rates assumed in the most recent Municipality Employee Pension Fund valuation.

#### Mortality

##### Before normal retirement

We have used the rates used in the 28 February 2005 valuation report of the Municipality Employee Pension Fund. The rates assumed are shown in Table 1 at the end of this Appendix.

##### After retirement

The PA (90) ultimate tables for males and females rated down by 2 years, as per the 28 February 2005 Municipality Employee Pension Fund valuation report, were used for mortality after early or normal retirement.

For ill-health retirement, mortality is loaded to allow for impaired mortality by assuming the member experiences mortality of someone 5 years older than his actual age, with a maximum assumed age of 65. For example, if a member retires on ill health at age 30, we have assumed he/she will experience mortality from then on of someone 5 years older than him/herself. If ill-health retirement takes place at age 63, we have assumed that he/she will experience mortality of someone 2 years older i.e.  $65 - 63 = 2$ .

#### Retirement age

A normal retirement age of 65 for both males and females was used. Active members who were above normal retirement age were assumed to retire immediately.

#### Dependants assumptions

##### Proportion married

We assumed that the proportion of employees married at each age would be as follows:

<u>Age</u>	<u>%married</u>
20	10
25	50
30	75
35	85
40	90
45	93

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 19. Employee benefit obligations (continued)

50	95
55	95
60	95
65	95

#### Age of spouses

For married couples we have assumed that the males would be 4 years older than the females. These age differences are assumed to apply at all ages of the member.

#### Continuation membership

We assumed that 95% of employees will continue their medical scheme membership after retirement, and that 95% of spouses will continue after the death of a member in service of after retirement.

TABLE 1

Age	DEMOGRAPHIC ASSUMPTIONS					
	Pre-Retirement Mortality Rates		Rate of Withdrawal		Rates of Ill-health and Early retirement	
	Males	Females	Males	Females	Males	Females
20	1.27%	0.21%	13.10%	9.40%	0.00%	0.00%
25	1.27%	0.22%	9.40%	7.50%	0.00%	0.00%
30	1.27%	0.24%	5.60%	5.60%	0.05%	0.05%
35	1.27%	0.30%	3.80%	3.80%	0.10%	0.10%
40	1.27%	0.44%	2.60%	1.90%	0.15%	0.15%
45	1.27%	0.72%	1.50%	1.30%	0.20%	0.20%
50	1.69%	1.18%	0.80%	0.80%	0.30%	0.30%
55	2.09%	1.87%	0.80%	0.80%	0.60%	0.60%
60	3.25%	2.90%	0.00%	0.00%	2.50%	2.50%
65	3.25%	2.90%	0.00%	0.00%	0.00%	0.00%

A further key assumption is that the current medical scheme contribution rates will not charge fundamentally over time (i.e. that the only impact on contributions will really be medical inflation).

### 20. Provisions

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	46 374 484	2 318 724	48 693 208

#### Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	20 600 000	25 774 484	46 374 484

The estimation of the current liability to rehabilitate the Landfill Site were performed by Jan Palm Consulting Engineering CC. Jan Palm Consulting Engineering CC are not connected to the municipality. The full report are available on request.

The amount is made up out of two sites, Langebaan and Vredenburg.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

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### 20. Provisions (continued)

#### Environmental rehabilitation provision

The sites under consideration are Vredenburg Landfill and Langebaan Landfill. These sites are both still operational and receive general waste, garden waste and builder's rubble.

In order to determine the rehabilitation costs for each site the Minimum Requirements (2nd Edition, 1998) from the Department of Water Affairs and Forestry (DWAF) were used as guideline for the design of the capping layer as well as the capacity of the storm water drainage system. Vredenburg's classification is G:M:B- where the "G" classification refers to the type of waste that may be received at the site, which in this case is "general waste". General waste is the description given to all domestic waste and all wastes generated from commercial, business and industrial activities that are not hazardous or toxic. Pharmaceutical and medical wastes are also not part of general waste. The "M" classification refers to a volume of waste disposed of between 150 and 500 ton per day and the "B-" indicates that the site has more evaporation than rainfall during 20% or more of its wet season. According to the Minimum requirements there is no need for a leachate management system in B- sites. Langebaan's classification is G:S:B- where the "S" classification refers to a volume of waste disposed of between 25 and 150 ton per day.

For Langebaan Landfill the cost estimate was based on the assumption that the site will be approximately shaped towards the final design by using waste. It was also assumed that the 200mm thick cover material could be sourced from nearby areas.

For this site the cost estimate is based on the assumption that the site will be approximately shaped towards the final design by using waste. For the cost estimate we have assumed that there will not be sufficient clayey material for the 2 x 150mm thick capping layers and as a result this was replaced with a geosynthetic clay layer (GCL) with a 300mm thick confining layer of selected material, covered with a 200mm topsoil growth layer.

It is difficult to determine the remaining site life for the two landfills since we do not have a latest topographical survey. These landfills need to be surveyed for us to do a life expectancy calculation. As a result it is also difficult to determine the amount and timing of outflows of economic benefits or service potential.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

### 21. Accumulated surplus

#### Ring-fenced internal funds and reserves within accumulated surplus - 2011

	Capital replacement reserve	Government grant reserve	Insurance reserve	Housing development fund	Total
Opening balance	191 736 142	104 754 047	2 128 790	31 077 525	329 696 504
Offsetting of depreciation	-	(2 756 838)	-	-	(2 756 838)
Transfer to capital replacement reserve	54 371 527	-	-	-	54 371 527
Property, plant and equipment purchased	(60 317 039)	-	-	-	(60 317 039)
Insurance claims processed	-	-	(102 005)	-	(102 005)
Capital grants used to purchase property, plant and equipment	-	34 353 897	-	-	34 353 897
Housing Transactions	-	-	-	(4 555 294)	(4 555 294)
Interest On Housing Development Fund	-	-	-	1 989 173	1 989 173
Zero value items and writing off reserve to accumulated surplus	-	(136 351 106)	-	-	(136 351 106)
	<b>185 790 630</b>	<b>-</b>	<b>2 026 785</b>	<b>28 511 404</b>	<b>216 328 819</b>

#### Ring-fenced internal funds and reserves within accumulated surplus - 2010

	Capital replacement reserve	Capitalisation reserve	Government grant reserve	Insurance reserve	Housing development fund	Total
Opening balance	168 359 981	15 275 160	97 978 700	2 246 267	30 973 785	314 833 893
Offsetting of depreciation	-	(34 446 871)	(5 164 580)	-	-	(39 611 451)
Transfer to capital replacement reserve	57 589 332	-	-	-	-	57 589 332
Property, plant and equipment purchased	(34 213 171)	-	-	-	-	(34 213 171)
Insurance claims processed	-	-	-	(117 477)	-	(117 477)
Capital grants used to purchase property, plant and equipment	-	-	11 939 927	-	-	11 939 927
Transfer to/from Housing Fund	-	-	-	-	103 740	103 740
Transfer to accumulated surplus	-	19 171 711	-	-	-	19 171 711
	<b>191 736 142</b>	<b>-</b>	<b>104 754 047</b>	<b>2 128 790</b>	<b>31 077 525</b>	<b>329 696 504</b>

Internal reserves are ringfenced within accumulated surplus.



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>22. Housing development fund</b>		
Unappropriate surplus	28 511 405	31 077 527
<b>The housing development fund is represented by the following assets and liabilities</b>		
Bank and cash	28 491 524	31 056 644
Other Debtors	19 881	20 883
<b>Assets</b>	<b>28 511 405</b>	<b>31 077 527</b>

The cash balance relating to the Housing Development Fund is not invested in a separate bank account. The cash balance of R28 491 524 is included in the Short Term Call Deposits, included under Cash and Cash Equivalents, with a balance of R360 000 000.

The Housing Development Fund is cash backed.

### 23. Financial liabilities by category

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

#### 2011

	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Other financial liabilities	(88 161 686)	(88 161 686)
Finance Lease Obligation	(1 582 901)	(1 582 901)
Trade and Other Payables	(64 997 673)	(64 997 673)
	<b>(154 742 260)</b>	<b>(154 742 260)</b>

#### 2010

	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Other financial liabilities	(78 682 144)	(78 682 144)
Finance Lease Obligation	(3 237)	(3 237)
Trade and Other Payable	(55 536 016)	(55 536 016)
	<b>(134 221 397)</b>	<b>(134 221 397)</b>

### 24. Revenue

Property rates	106 499 256	105 189 487
Property rates – Penalties imposed and collection charges	4 556 368	4 361 628
Service charges	327 932 701	270 729 465
Rental of facilities & equipment	9 547 611	9 182 102
Interest received – trading	1 917 647	1 715 768
Income from agency services	2 573 611	2 397 226
Fines	2 511 497	2 847 757
Licences and permits	1 399 070	1 364 268
Government grants & subsidies	62 085 906	46 199 024
	<b>519 023 667</b>	<b>443 986 725</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>24. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	327 932 701	270 729 465
Rental of facilities & equipment	9 547 611	9 182 102
Interest received – trading	1 917 647	1 715 768
Income from agency services	2 573 611	2 397 226
Licences and permits	1 399 070	1 364 268
	<b>343 370 640</b>	<b>285 388 829</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	106 499 256	105 189 487
Property rates – Penalties imposed and collection charges	4 556 368	4 361 628
Fines	2 511 497	2 847 757
<b>Transfer revenue</b>		
Government Grants	62 085 906	46 199 024
	<b>175 653 027</b>	<b>158 597 896</b>
<b>25. Property Rates</b>		
<b>Rates received</b>		
Property Rates	118 362 813	113 264 155
Building Clauses Levy	57 837	55 855
Less: Income forgone	(11 921 394)	(8 130 523)
	106 499 256	105 189 487
Property rates - penalties imposed and collection charges	4 556 368	4 361 628
	<b>111 055 624</b>	<b>109 551 115</b>
<b>General Valuation Roll</b>		
Residential	16 898 056 728	16 328 460 170
Commercial	2 931 138 747	3 108 871 787
State	776 571 870	761 934 650
Municipal	66 119 900	232 663 730
Small holdings and farms	2 019 180 630	1 971 128 600
Other	584 369 740	337 122 660
	<b>23 275 437 615</b>	<b>22 740 181 597</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. 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 1 (2010: 1) is applied to property valuations to determine assessment rates.

Rates are levied on an annual or monthly basis. Interest at prime plus 1% per annum (2010: 1%) is levied on rates outstanding after the due date for payment.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>26. Service charges</b>		
Sale of electricity	144 284 841	108 276 876
Sale of water	70 029 363	63 893 295
Sewerage and sanitation charges	10 235 448	10 279 312
Refuse removal	29 331 757	27 083 067
Other service charges	74 051 292	61 196 915
	<b>327 932 701</b>	<b>270 729 465</b>
<b>27. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	9 547 611	9 182 102
<b>28. Government grants and subsidies</b>		
Equitable Share	26 840 351	21 342 612
Subsidy: Housing Fund	-	375 978
Government Grant - Capital Contributions	34 794 956	22 784 831
Contribution: Western Cape Cleanup Operations	-	(4 023)
Government grant (operating) 6	-	1 065 617
Cleanup of Stands	(595)	-
Skill Development Program SETA	335 743	512 769
Other Subsidies	-	20 000
Subsidies: Main Roads	87 254	81 753
Bursaries	28 197	19 487
	<b>62 085 906</b>	<b>46 199 024</b>
<b>29. Other revenue</b>		
Contribution to bad Debt Ex Housing Development Fund	388 969	(216 405)
Discount Received from Creditors	722 119	500 678
Building Plan Fees	1 706 292	499 082
Sundry Income	3 789 984	4 642 886
	<b>6 607 364</b>	<b>5 426 241</b>
<b>30. Interest earned - Bank and Call Deposits</b>		
<b>Interest revenue</b>		
Cash and Cash Equivalents	27 546 018	28 290 646

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>31. Employee related costs</b>		
Basic	89 086 970	75 763 030
Bonus	7 743 735	6 577 054
Medical aid - company contributions	4 671 642	4 325 565
UIF	956 957	790 808
WCA	996 073	878 797
Transport of Furniture	59 044	28 711
Increase in Liability for Leave	966 630	2 222 482
Leave Payments	4 957	-
Group Life - company contributions	2 387 045	1 959 619
Pension - company contributions	15 316 025	12 941 577
Cell Phone allowance	26 205	22 424
Uniforms/Protective clothing	966 174	775 533
Motor car allowance	1 928 101	2 482 757
Overtime payments	8 248 577	6 831 665
Reimbursed travel expenses	23 000	34 500
Housing benefits and allowances	638 995	697 583
Employment costs	56 536	69 407
Standby allowances	3 710 931	2 687 453
Tool allowance	720	720
	<b>137 788 317</b>	<b>119 089 685</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	875 999	845 941
Car Allowance	219 000	180 000
Contributions to UIF, Medical and Pension Funds	188 941	157 693
Housing Subsidy	14 803	24 569
Telephone Allowance	8 800	-
	<b>1 307 543</b>	<b>1 208 203</b>
<b>Remuneration of Chief Finance Officer (Acting)</b>		
Annual Remuneration	227 629	204 844
Car Allowance	98 586	92 220
Bonus and Long Service Bonus	44 433	16 823
Contributions to UIF, Medical and Pension Funds	74 633	66 202
Acting Allowance	260 093	131 684
	<b>705 374</b>	<b>511 773</b>
<b>Remuneration of Chief Finance Officer (Suspended)</b>		
Annual Remuneration	-	301 549
Car Allowance	-	130 289
Performance Bonuses	-	24 765
Contributions to UIF, Medical and Pension Funds	-	85 995
Housing Subsidy	-	6 464
Acting Allowance	-	35 129
	-	<b>584 191</b>
<b>Remuneration of Director Technical Services (Suspended)</b>		

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>31. Employee related costs (continued)</b>		
Annual Remuneration	418 123	311 838
Car Allowance	105 000	75 000
Contributions to UIF, Medical and Pension Funds	117 909	84 857
Housing Subsidy	14 518	134 340
	<b>655 550</b>	<b>606 035</b>
<b>Remuneration of Director Corporate Services</b>		
Annual Remuneration	450 449	421 115
Car Allowance	114 000	102 000
Contributions to UIF, Medical and Pension Funds	104 913	93 998
Housing Subsidy	32 760	35 241
	<b>702 122</b>	<b>652 354</b>
<b>Remuneration of Director Technical Services (Acting)</b>		
Annual Remuneration	338 195	252 599
Car Allowance	138 628	187 505
Performance Bonuses	52 763	30 368
Contributions to UIF, Medical and Pension Funds	101 937	106 978
Acting Allowance	120 004	77 654
Housing Subsidy	5 790	6 398
	<b>757 317</b>	<b>661 502</b>
<b>Remuneration of Director Community Service</b>		
Annual Remuneration	614 727	371 164
Car Allowance	131 333	90 000
Contributions to UIF, Medical and Pension Funds	140 248	101 356
Housing Subsidy	19 364	20 205
Acting allowance	38 317	-
	<b>943 989</b>	<b>582 725</b>
<b>Summary of Employee Related Costs</b>		
Salaries, Wages and Contributions	137 788 317	120 259 412
Remuneration of Municipal Manager	1 307 543	1 208 203
Remuneration of Chief Financial Officer (suspended)	-	584 191
Remuneration of Chief Financial Officer (acting)	705 374	511 773
Director of Corporate Services	702 122	652 354
Director Technical Services (suspended)	655 550	661 502
Director Technical Services (acting)	757 317	606 035
Director Community Services	943 989	582 725
	<b>142 860 212</b>	<b>125 066 195</b>
<b>32. Remuneration of councillors</b>		
Executive Mayor	615 412	572 108
Deputy Executive Mayor	484 103	461 105
Mayoral Committee Members	1 774 296	1 244 653
Speaker	481 891	453 420
Councillors	2 732 365	3 024 596
	<b>6 088 067</b>	<b>5 755 882</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>33. Depreciation</b>		
Property, plant and equipment	73 708 917	75 107 646
<b>34. Finance costs</b>		
Non-current borrowings	7 567 981	6 677 035
Trade and other payables	972 276	-
Finance leases	24 645	10 726
Capitalised	(281 336)	(704 717)
Other interest	(2 984)	24 887
	<b>8 280 582</b>	<b>6 007 931</b>
Capitalisation rates used during the period were the prime lending rate as determined by the Reserve Bank.		
<b>35. Debtors impairment</b>		
Contributions to debt impairment provision	13 185 784	4 880 053
Bad debts written off	1 515 171	-
	<b>14 700 955</b>	<b>4 880 053</b>
<b>36. Bulk purchases</b>		
Electricity	108 254 743	80 504 368
Water	39 369 643	35 678 447
	<b>147 624 386</b>	<b>116 182 815</b>
<b>37. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Pauper Burials	18 773	12 779
Bursaries	292 561	272 961
Western Cape Cleanup Operation	-	137 776
Youth Development	-	70
LED Cultural Village	45 152	54 198
Levy: Skills Development	1 651 510	1 044 282
Subsidy: Preferred Scheme Housing	(7 381)	352 196
Equitable share	16 136 911	11 665 923
Contribution: Finance Management	1 000 058	621 257
CDW Programme (WCDM)	32 586	52 720
Consumer Education	123 845	200 495
Library	12 104	1 455
International Relationship	-	19 513
MSIG	252 556	633 820
Western Cape Fanjol 2010	2 080	160 740
	<b>19 560 755</b>	<b>15 230 185</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>38. General expenses</b>		
Advertising	848 458	493 524
Assessment rates & municipal charges	4 338 257	1 936 476
Auditors remuneration	3 041 885	2 423 114
Bank charges	1 228 384	1 181 617
Cleaning of yards	117 486	-
Commission paid	-	315 808
Consulting and professional fees	7 497 220	5 767 859
Delivery expenses	-	56
Entertainment	459 934	400 683
Animal Costs	19 384	28 732
Gifts	16 575	5 109
Insurance	1 271 980	758 651
Community development and training	6 173	-
Conferences and seminars	195 976	179 189
IT expenses	8 268	6 123
Lease rentals on operating lease	2 708 700	1 967 084
License fees	500 511	648 652
Magazines, books and periodicals	38 994	11 711
Fuel and oil	8 057 043	6 483 257
Postage and courier	975 741	953 222
Printing and stationery	1 342 611	1 271 439
Security (Guarding of municipal property)	3 707 041	3 326 302
Subscriptions and membership fees	834 138	671 735
Telephone and fax	6 143 174	5 795 652
Transport and freight	19 845	7 796
Training	1 112 807	963 892
Travel - local	878 520	860 089
Refuse	334 252	314 131
Title deed search fees	65 475	33 057
Electricity	9 294 505	7 222 805
Sewerage and waste disposal	262 010	213 012
Water	1 867 353	1 550 116
Operation of Landfill Site	1 277 257	970 921
Other expenses	1 048 992	272 119
Valuation cost	154 234	1 076 401
Other material	1 429 373	1 389 029
Contribution: Post Retirement Benefit	8 110 000	8 686 205
Chemicals	46 447	43 513
Top Structures Written Out	-	25 439
	<b>69 259 003</b>	<b>58 254 520</b>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>39. Cash generated from operations</b>		
Surplus	41 853 530	21 958 751
<b>Adjustments for:</b>		
Depreciation and amortisation	73 708 917	75 107 646
(Loss) gain on sale of assets and liabilities	(641 095)	871 651
Fair value adjustments	(2 210 000)	-
Finance costs - Finance leases	24 645	10 726
Impairment of Landfill Site	2 318 724	25 774 484
Debt impairment	14 700 955	4 880 053
Movements in operating lease assets and accruals	65 033	-
Contribution to post retirement medical aid benefit	6 144 795	7 210 205
Contribution to CRR from operations	4 350 434	8 608 035
Housing Development Fund movement included in operations	(4 555 297)	-
Internal Reserves movements included in operations	-	(1 369 880)
<b>Changes in working capital:</b>		
Inventories	(251 569)	1 195 348
Trade and other receivables from non-exchange transactions	5 239 442	(7 671 545)
Consumer debtors	(22 651 240)	(27 260 455)
Trade and other payables from exchange transactions	9 461 658	3 301 630
VAT	(552 753)	2 180 896
Unspent conditional grants and receipts	14 294 231	(5 397 795)
Consumer deposits	829 736	610 296
	<b>142 130 146</b>	<b>110 010 046</b>
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for and provided for</b>		
• Infrastructure Assets	17 665 454	8 990 872
• Other Assets	2 316 692	400 000
	<b>19 982 146</b>	<b>9 390 872</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Total capital expenditure	177 017 303	128 309 044
This committed expenditure relates to property, plant and equipment, other and housing development and will be financed by available bank facilities, retained surpluses, mortgage facilities, existing cash resources, funds internally generated, etc.		
<b>Finance leases - as lessee</b>		
<b>Minimum lease payments due</b>		
- within one year	405 304	3 409
- in second to fifth year inclusive	1 552 577	284
	<b>1 957 881</b>	<b>3 693</b>
<b>Operating leases – as lessee</b>		
<b>Minimum lease payments due</b>		
- within one year including finance charges	778 779	651 785
- in second to fifth year including finance charges	-	710 445
	<b>778 779</b>	<b>1 362 230</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. No contingent rent is payable.



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>40. Commitments (continued)</b>		
<b>Operating leases – as lessor (income)</b>		
<b>Minimum lease payments due</b>		
- within one year	(545 888)	(670 463)
- in second to fifth year	(939 141)	(856 190)
- later than five years	(247 818)	(209 078)
	<u>(1 732 847)</u>	<u>(1 735 731)</u>

Certain of the municipality's premises are rented out. The municipality has two contracts that generate contingent rent.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 41. Contingencies

#### Housing guarantees listed at Financial Institutions:

As at 30 June 2011 the municipality had a housing guarantee list at other Financial Institutions amounting to R10 000. The total housing guarantees, per Financial Institution, is listed below.

ABSA Bank	<u>R10 000</u>
	<u>R10 000</u>

A detail list of the guarantee is available on request.

#### MORA interest accrued as from 15 February 2010 to 31 August 2011 relating to the Cape Joint Pension Fund:

On 15 February 2010 the municipality received a letter of demand to pay their share of the shortfall of Investment Return [(Rule 17(5))] on the Cape Joint Pension Fund. The municipality received an invoice to pay this shortfall amount of R306 274 on 31 August 2011. This invoice were raised retrospectively to 30 June 2010. The municipality were also charged MORA interest on this same invoice, amounting to R105 033. The municipality is currently negotiating, with the Cape Joint Pension Fund, not to pay this interest amount. The interest amount were not raised yet.

The outcome of this case is not certain yet.

#### Langebaan Country Estate valuation roll:

During the financial year 30 June 2008 the valuation roll was reviewed. The general valuation roll is for a 4 year period. A supplementary valuation was included because of property improvements. Litigation instituted by the Langebaan Country Estate against the municipality rejecting the increase in property values. Court proceedings are currently underway. This is a possible obligation which will lead to an outflow of resources. The estimated value of the litigation is R300 000.

The outcome of the court proceedings is uncertain.

#### Langebaan Country Estate development approvals:

During the financial year ending 30 June 2011, new development conditions were imposed by the Town Planning department of the municipality on the link road which was to be built in the Langebaan area. Langebaan country estate opposes the new conditions. The municipality is opposing this litigation. The estimated value of this litigation is R150 000.

Court proceedings are at early stages and are uncertain.

#### Langebaan Country Estate and Sea Project Association:

During the financial year ending 30 June 2011 Langebaan Country Estate instituted court proceedings against the municipality. The Land and Sea Project is a company representing the adjacent home owners associations that have an interest in the surrounding areas on behalf of the municipality. Certain building conditions were imposed on Langebaan Country Estate which resulted in litigations against the municipality. The estimated value of this litigation is R100 000.

This matter is currently in court and at early stage and is uncertain.

#### Charisma Beleggings BK:

In terms of its bylaws, the municipality may charge availability fees to developers. During the financial year ending 30 June 2011 claimants/developers that were charged fees in this matter instituted court proceedings on the basis that there were no services available on the land. During the financial year ended 30 June 2011, the claimant, Charisma Beleggings, did not respond to the court process, however this case is subjudice. The estimated value of this litigation is R30 000.

Court date has been postponed to February 2012

#### Britannia Beach estate:

The municipality revised the capital contributions for developing rights and during the financial year ending 30 June 2011 it increased the contribution scale for capital contributions. Britannia Beach Estate opposed the new scale as the increase was too high and instituted litigation demanding the municipality to reduce it. The estimated value of this litigation is R1 500 000.

The municipality has petitioned the judge president of Western Cape High Court division for leave to appeal against the judgement in this matter.

#### Andrew Martin Coetzee (AMC Plant hire):

During the financial year ending 30 June 2011, the applicant took the municipality to court on various administrative law issues regarding black listed contractors and supply chain regulation non-compliance matters. The matter has been in court

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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Figures in Rand	2011	2010
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### 41. Contingencies (continued)

for more than two years and is set down for a hearing in June 2012. The municipality has incurred R1 561 295 for legal fees to date. The estimated value of this litigation is R250 000.

The outcome is uncertain.

#### West Coast Miracles with Britannia Beach Estate:

A developer, West Coast Miracles, opposed the increase in property value which was enforced by Council during the financial year ending 30 June 2011. This resulted in an increase in rates on properties which was unfavourable to the developers who opposed this and appealed to the High Court for the increase to be reduced. Even though the municipality refused to reduce the valuation, the legal costs will still be incurred. The estimated value of this litigation is R500 000.

The matter is uncertain and will only be determined in court during December 2012.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 42. Prior period errors

#### Error 1

##### Infrastructure Assets

Infrastructure assets were unbundled during the 2010 year and restated retrospectively up to 1 July 2007 in order to adhere to the guidelines provided by the Accounting Standards Board and National Treasury. During the unbundling exercise a few assets were omitted due to the large extent of details to be accounted for. The municipality restated these assets retrospectively in order to adhere to the applicable accounting standards. The cumulative effect of the error lead to an adjustment of R38 725 439 against the accumulated surplus in prior periods. The increase in cost of R48 624 673 will lead to an increase in depreciation of more or less R1 344 069 in future periods. The increase in cost lead to an increase in depreciation of R946 419 in 2010, R1 304 802 in 2009, R1 306 720 in 2008 and R6 342 013 in 2007 and prior periods.

#### Error 2

##### Other Assets

Other assets were restated in the year ended 30 June 2010. During the year some errors were found on the restated assets and were rectified retrospectively in order to promote fair presentation. The cumulative effect on other assets were R5 227.

#### Error 3

##### Infrastructure Assets

During the year all asset with zero balances were reviewed. This exercise led to accumulated depreciation of R383 793 092 reversed against prior periods. The effect on respective periods depreciation is an increase of R10 557 156 on 30 June 2008, R28 841 362 on 30 June 2009 and 30 June 2010. The effect on future periods is an increase of R28 841 362 in depreciation.

#### Error 4

During the current year certain asset types changed in category. In order to present these assets fairly the municipality decided to adjust these asset types retrospectively. There were also some errors between cost and accumulated depreciation and these errors were restated retrospectively as well. The effect on accumulated surplus and on future periods is zero.

#### Error 5

During the year under review we discovered that payments to Provincial Department for registrations, special permits and licenses were incorrectly allocated. As a result of incorrect allocation, commission received from Provincial Government and income from special permits were misstated. We decided to retrospectively restate these amounts in order to rectify revenue and control accounts related to the Provincial Department.

#### Error 6

The unspent and overspent conditional grants register were reviewed and updated to split between the projects finalised and projects still in progress. The register were proven to be incorrect and same were confirmed with the applicable Provincial Reports. The municipality decided to restate the error retrospectively back to the year ended 30 June 2010. The Unspent Conditional Grants were restated with R1 878 000 and the Unpaid Conditional Grants were restated with R2 402 948.

#### Error 7

Investment property were incorrectly depreciated in the previous year. The correction resulted in a retrospective adjustment of investment properties to the value of R395.

#### Error 8

During the year the municipality reviewed the lease register on operating leases as lessor. Some errors were identified and rectified retrospectively in order to adhere to fair presentation. The cumulative error on the income, sundry debtor and operating lease asset is disclosed below.

#### Error 9

During the year the municipality realised that the prior period split between current and non-current portion relating to Other Financial Liabilities' balances were completely swapped. They decided to rectify this error retrospectively. There will be no impact on the future periods with regard to this error.

#### Error 10

During the year the municipality received a letter from Cape Joint Pension Fund regarding their liability for the shortfall on the fund earnings. The amount payable amounted to R306 274. After reviewing this letter of demand the municipality realised that this amount had to be provided for in the prior period as it existed at 30 June 2010. The impact on the future period is zero as this is a once off payment.

#### Error 11

During the year the municipality realised that the contributions made to the Post Retirement Health Benefit were incorrectly

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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### 42. Prior period errors (continued)

included in employee related cost, instead of the provision itself. The contributions amounted to R1 476 000. The contribution to the Post Retirement Benefit were also understated with the same amount. The impact on the Statement of Financial Performance for the prior period and future periods is zero.

#### Error 12

During the year the municipality realised that an asset that should have been disposed of were incorrectly capitalised as interest in the prior period. This resulted in a error that had to be restated retrospectively. The amount is R156 969. The impact on the Statement of Financial Performance for the prior period and future periods is zero.

#### Error 13

During the year the municipality realised that infrastructure assets were incorrectly included under inventory. This assets were purchased during previous years' and were recetified retrospectively in order to promote fair presentation. The amount to be rectified is R541 030.

#### Error 14

During the year under review the municipality reviewed the conditions of all the Fixed Assets. Accumulated depreciation to the amount of R24 259 038 were rolled back on assets. The municipality decided that the effect on the prior periods is material and restated the accumulated depreciation retrospectively. The change in useful life lead to an decrease in depreciation to the amount of R5 430 388 for the year ended 30 June 2010, R5 092 676 for the year ended 30 June 2009, R4 521 470 for the year ended 30 June 2008 and R5 216 001 for the year ended 30 June 2007 and prior. The effect of depreciation on future periods is an decrease of R5 529 324 per year. Refer Note 10.

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>42. Prior period errors (continued)</b>		
<b>Statement of financial position and Financial Performance</b>		
Error 1 - Property, Plant and Equipment - Infrastructure @ Cost 30 June 2007	-	19 361 395
Error 1 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2007	-	(6 342 013)
Error 1 - Accumulated Surplus - 30 June 2007	-	(13 019 382)
Error 1 - Property, Plant and Equipment - Infrastructure @ Cost 30 June 2008	-	29 515 451
Error 1 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2008	-	(1 306 720)
Error 1 - Accumulated Surplus - 30 June 2008	-	(28 208 731)
Error 1 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2009	-	(1 304 082)
Error 1 - Accumulated Surplus - 30 June 2009	(39 924 031)	1 304 082
Error 1 - Property, Plant and Equipment - Infrastructure @ Cost 30 June 2010	-	(252 174)
Error 1 - Interest Capitalised - 30 June 2010	-	159 969
Error 1 - Accumulated Surplus - 30 June 2010	252 174	95 205
Error 1 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2010	-	(946 419)
Error 1 - Depreciation - 30 June 2010	-	946 419
Error 1 - Accumulated Surplus - 30 June 2010	946 419	-
Error 2 - Property, Plant and Equipment - Other @ Cost 30 June 2010	-	(52 271)
Error 2 - Property, Plant and Equipment - Other @ Acc Depr 30 June 2010	-	47 044
Error 2 - Loss on Sale of PPE	-	5 227
Error 2 - Accumulated Surplus - 30 June 2010	5 227	-
Error 3 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2007	-	455 834 911
Error 3 - Accumulated Surplus - 30 June 2007	-	(455 834 911)
Error 3 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2008	-	(10 310 536)
Error 3 - Accumulated Surplus - 30 June 2008	-	10 310 536
Error 3 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2009	-	(28 757 233)
Error 3 - Accumulated Surplus - 30 June 2009	(416 767 142)	28 757 233
Error 3 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2010	-	(28 774 059)
Error 3 - Depreciation - 30 June 2010	-	28 774 059
Error 3 - Accumulated Surplus - 30 June 2010	28 774 059	-
Error 4 - Property, Plant and Equipment - Leased @ Cost 30 June 2010	-	(29 028)
Error 4 - Property, Plant and Equipment - Leased @ Acc Depr 30 June 2010	-	29 028
Error 4 - Property, Plant and Equipment - Intangibles @ Cost 30 June 2010	-	(9 921)
Error 4 - Property, Plant and Equipment - Intangibles @ Acc Depr 30 June 2010	-	9 921
Error 4 - Property, Plant and Equipment - Land @ Cost 30 June 2010	-	302 286
Error 4 - Property, Plant and Equipment - Buildings @ Cost 30 June 2010	-	4 980 035
Error 4 - Property, Plant and Equipment - Buildings @ Acc Depr 30 June 2010	-	(2 301 911)
Error 4 - Property, Plant and Equipment - Infrastructure @ Cost June 2010	-	169 949
Error 4 - Property, Plant and Equipment - Infrastructure @ Acc Depr 30 June 2010	-	(90 432)
Error 4 - Property, Plant and Equipment - Community @ Cost 30 June 2010	-	(5 580 994)
Error 4 - Property, Plant and Equipment - Community @ Acc Depr 30 June 2010	-	2 392 343
Error 4 - Property, Plant and Equipment - Other @ Cost 30 June 2010	-	128 724
Error 5 - Provincial Road Collections - 30 June 2010	-	408 631
Error 5 - Enatis Control Account - 30 June 2010	-	5 807
Error 5 - Other Income - 30 June 2010	-	(5 807)
Error 5 - Licenses and Permits - 30 June 2010	-	(408 631)
Error 5 - Accumulated Surplus - 30 June 2010	(414 438)	-
Error 6 - Unspent Conditional Grants - 30 June 2010	-	(1 878 000)
Error 6 - Revenue from Government Grants - 30 June 2010	-	1 878 000
Error 6 - Accumulated Surplus - 30 June 2010	1 878 000	-
Error 6 - Unpaid Conditional Grants - 30 June 2010	-	2 402 948
Error 6 - Revenue from Government Grants - 30 June 2010	-	(2 402 948)

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>42. Prior period errors (continued)</b>		
Error 6 - Accumulated Surplus - 30 June 2010	(2 402 948)	-
Error 7 - Investment Property @ Acc Depr	-	395
Error 7 - Depreciation - 30 June 2010	-	(395)
Error 7 - Accumulated Surplus - 30 June 2010	(395)	-
Error 8 - Operating Lease Asset - 30 June 2010	-	104 882
Error 8 - Rental of Facilities and Equipment - 30 June 2010	-	(104 882)
Error 8 - Sundry Debtors - 30 June 2010	-	20 808
Error 8 - Rental of Facilities and Equipment - 30 June 2010	-	(20 808)
Error 8 - Accumulated Surplus 2010	(125 690)	-
Error 9 - Other Financial Liability - Current Portion - 30 June 2010	-	(2 747)
Error 9 - Other Financial Liability - Non-current Portion - 30 June 2010	-	2 747
Error 10 - Trade and Other Payables - 30 June 2010	-	(306 274)
Error 10 - Employee Related Cost - 30 June 2010	-	306 274
Error 10 - Accumulated Surplus - 30 June 2010	306 274	-
Error 11 - Post Retirement Health Benefit - 30 June 2010	-	1 476 000
Error 11 - Employee Related Cost - 30 June 2010	-	(1 476 000)
Error 11 - Post Retirement Health Benefit - 30 June 2010	-	(1 476 000)
Error 11 - Contribution to Post Retirement Medical Aid Benefit - 30 June 2010	-	1 476 000
Error 12 - Loss on Sale - 30 June 2010	-	(156 969)
Error 12 - Interest Capitalised - 30 June 2010	-	156 969
Error 13 - Property, Plant and Equipment - Infrastructure @ Cost - 30 June 2010	-	541 030
Error 13 - Inventory - 30 June 2010	-	(541 030)
Error 14 - Property, Plant and Equipment - Other @ Acc Depr - 30 June 2007	-	5 216 001
Error 14 - Accumulated Surplus - 30 June 2007	-	(5 216 001)
Error 14 - Property, Plant and Equipment - Other @ Acc Depr - 30 June 2008	-	4 521 470
Error 14 - Accumulated Surplus - 30 June 2008	-	(4 521 470)
Error 14 - Property, Plant and Equipment - Other @ Acc Depr - 30 June 2009	-	5 092 676
Error 14 - Accumulated Surplus - 30 June 2009	(14 830 147)	(5 092 676)
Error 14 - Property, Plant and Equipment - Other @ Acc Depr - 30 June 2010	-	5 430 388
Error 14 - Depreciation - 30 June 2010	-	(5 430 388)
Error 14 - Accumulated Surplus - 30 June 2010	(5 430 388)	-

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 43. Comparative figures

Certain comparative figures have changed. The changes is as a result of amounts reclassified or prior period errors.

A detailed reconciliation is available upon request..

### 44. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

#### Interest rate risk

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

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents 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.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2011	2010
Trade and other receivable from non-exchange transactions	27 922 297	33 242 107
Trade and other receivables from exchange transactions	68 573 313	60 623 028
Cash and cash equivalents	445 545 662	407 175 346

### 45. Events after the reporting date

After year end the municipality inherited a Demarcated Municipal Area from the West Coast District Municipality. The financial impact on the municipality is being investigated.

After year end the municipal manager resigned and were paid an severance package of R1 276 580 in order to compensate for his remaining contract term. This were classified as a non-adjusting event after year end.

The municipality are not aware of any other events, after the reporting date, that might have an impact on the financial statements.



# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>46. Fruitless and wasteful expenditure</b>		
Opening Balance	212 641	101 877
VAT penalty and interest	54 539	-
Salary payment to EPWP employee	8 750	-
Unauthorised use of council property	-	1 500
Legal fees of councilors for the 2007/08 year	-	30 000
Vending machine purchased	-	26 914
Over-payment to contractor	-	35 000
VAT penalty	-	4 039
Travel allowance paid to municipal officials	-	44 264
Less: Amounts Condoned (Vending machine purchased)	-	(26 914)
Less: Amounts Condoned (VAT penalty)	-	(4 039)
Less: Amounts Condoned (VAT penalty and interest 2011)	(54 539)	-
	<b>221 391</b>	<b>212 641</b>

### Unauthorised use of council property:

During the year under review Chippa Security had unauthorised use of council property. This case was referred to Council and it was decided that management of the municipality should recover the amounts in terms of the Municipal Finance Management Act 56 of 2003 section 64 (1) (a) (e) and (f). No monies have been recovered from Chippa Security up to date.

The municipality has given a letter to Chippa Security to state that an amount of R1 500 is owed to the municipality, but no response have been received from Chippa Security yet.

### Legal fees paid on behalf of councilors during the 2007/08 financial year::

During the year under review management referred the legal fees paid on behalf of councilors to Council to determine if these fees should be recovered or not. Council decided that the R30 000 paid in legal fees should be recovered in terms of the Municipal Finance Management Act 56 of 2003 section 64 (1) (a) (e) and (f). No monies have been recovered from councilors up to date.

### Over-payment to contractor:

During the year under review the municipality over paid a contractor to an amount of R35 000. This over payment were not reported to Council and up to date no process was initiated to recover the R35 000 from the contractor.

### Travel allowance paid to municipal officials without proper approval:

During the year under review the municipality paid certain individuals travel allowances without receiving proper approval from the Council. The total amount of the payments made is R44 264.

Council approved the agreements with the officials only in May 2010.

### VAT penalty and interest:

During the year under review SARS conducted an VAT input audit at the municipality. The assessment received back on the same audit indicated penalties and interest totalling R54 539 in favour of SARS. The case were reported to Council and condoned.

### Salary payment to EPWP employee:

During the year under review a payment of R8 750 was made to a fictitious employee on an EPWP project. The case was referred to the internal audit department to obtain an opinion. The internal audit department indicated that the payment was a fruitless and wasteful payment.

The case was not reported to Council yet.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>47. Irregular expenditure</b>		
Opening balance	57 931 180	709 610
Potential Irregular payments to suppliers	-	51 857 394
Quotations under R2 000	-	27 366
Payments to companies of which the director, manager or stakeholder is a person in service of the state	-	1 309 762
Payments to consultants without contracts or deviation orders approved	-	885 911
Capital payments with less than three quotes	-	650 802
Contracts over R200 000 - Advertising	-	383 287
Contracts over R200 000 - Security	-	245 746
Contracts over R200 000 - Entertainment	-	21 000
Contracts over R200 000 - Postage and Courier	-	1 171 525
Contracts over R200 000 - Outstanding Vouchers	-	31 592
Limited Bidding	-	637 185
Less: Amounts condoned (Contracts under R2 000))	(27 366)	-
Less: Amounts Condoned (Payments to Consultants)	(885 911)	-
Less: Amounts Condoned (Capital payments with less than three quotes)	(201 414)	-
Less: Amounts Condoned (Contracts over R200 000 - Advertising)	(383 287)	-
Less: Amounts Condoned (Contracts over R200 000 - Security)	(245 746)	-
Less: Amounts Condoned (Contracts over R200 000 - Entertainment)	(21 000)	-
Less: Amounts Condoned (Contracts over R200 000 - Postage and Courier)	(1 171 525)	-
Less: Amounts Condoned (Contracts over R200 000 - Outstanding Vouchers)	(31 592)	-
Less: Amounts Condoned (Limited Bidding)	(339 000)	-
	<b>54 624 339</b>	<b>57 931 180</b>

### Severance package paid to employee

During the year ended 30 June 2008 due process was not followed before the severance package of an employee was approved and paid. The severance package of R709 610 is considered to be irregular expenditure.

This case has been presented to Council. Council instructed proper investigation should be conducted by the Administration department. This investigation has not been finalised yet and is still unresolved.

### Potential Irregular payments to suppliers

During the previous year irregular payments were identified and referred to an external committee for investigation. The investigation was finalised during the current year. Settlement agreements were made with almost all the suppliers involved. The report to condone the expenditure have been prepared, but not yet presented to Council for condonement.

The cumulative irregular payments identified, for the past seven years, amounted to R51 857 394, made up as follows:

2008 and prior periods: R38 943 013  
2009: R8 906 034  
2010: R4 008 347

### Quotations under R2 000 not complying with the Supply Chain Management Policy

During the previous year the municipality did not adhere to the Supply Chain Management Policy in respect of certain quotations under R2 000. The total amount of these quotations and payments were R27 336.

The Council condoned these payments during the year under review.

### Payments to Companies of which the director, manager or stakeholder is a person in service of the state

During the previous year under review the municipality made payments to companies of which the director, manager or stakeholder is a person in service of the state. The interest of same was also not declared in the tender documents. The total amount of these payments were R1 309 762.

The Council did not condone any of these payment yet.

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 47. Irregular expenditure (continued)

#### Payments to consultant without contracts or deviation orders approved

During the previous year the municipality made payments to consultants without having proper contracts or deviations order in place. The total amount of these payments were R885 911.

The Council condoned these payments.

#### Capital purchases with less than three quotes

During the previous year the municipality purchased assets without getting three quotes. The total amount of these payments were R650 802.

The Council condoned R201 414 of the payments. An amount of R449 388 has not been condoned yet.

#### Contracts over R200 000 where the municipality did not adhere to the Supply Chain Management Policy

During the previous year municipality had contracts with suppliers over the value of R200 000 for which the correct Supply Chain Management Policy procedures were not followed. The total amount of irregular expenditure per expense type were as follows:

Advertising	R383 287
Security	R245 746
Entertainment	R21 000
Postage and Courier	R1 171 525
Outstanding Vouchers	R31 592

All the above-mentioned contracts and expenditure were condoned by Council.

#### Limited Bidding during the Supply Chain process

During the pervious year the municipality made payments to suppliers where there were limited bidding. The same payments were not accompanied by approved deviation orders. The total amount of these irregular payments were R637 185.

The Council condoned R339 000 of the payments. An amount of R298 185 has not been condoned yet.

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

#### Contributions to organised local government

Current year subscription / fee	820 590	669 000
Amount paid - current year	(820 590)	(669 000)
	<u>-</u>	<u>-</u>

No amount were outstanding at year end.

#### South African Music Rights and Skills Development Levies

Current year subscription / fee	1 217 025	1 048 860
Amount paid - current year	(1 217 025)	(1 048 860)
	<u>-</u>	<u>-</u>

No amounts were outstanding at year end.

#### Audit fees

Current year subscription / fee	3 041 885	2 423 114
Amount paid - current year	(3 041 885)	(2 423 114)
	<u>-</u>	<u>-</u>

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

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

No amounts were outstanding at year end.

#### PAYE and UIF

Current year payroll deductions	15 624 865	13 380 619
Amount paid - current year	(15 624 865)	(13 380 619)
	-	-

No amounts were outstanding at year end.

#### Pension and Medical Aid Deductions

Current year payroll deductions and Council Contributions	32 887 520	27 771 061
Amount paid - current year	(32 887 520)	(27 771 061)
	-	-

No amounts were outstanding at year end.

#### VAT

VAT payable	3 161 598	3 714 351
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All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

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

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councilors Skei J & R	-	374	374
Councilor De Bruyn GN & LK	1 276	15 194	16 470
Councillor Biko MS	710	470	1 180
Councillor Jordaan PM	1 422	11 686	13 108
	<b>3 408</b>	<b>27 724</b>	<b>31 132</b>
30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councilors De Beer JJ & O	-	669	669

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

# Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>48. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>30 June 2011</b>		
	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Councillors De Beer JJ&O	2 749	120
Councillor Skei J	374	120
Councillor De Bruyn GN	14 765	120
Councillor Jordaan PM	11 186	120
Councillor Biko MS	224	120
Councillor Mbanze FFB	2 308	120
	<b>31 606</b>	<b>720</b>
<b>30 June 2010</b>		
	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Councillors De Beer JJ&O	1 603	120
Councillor De Wee JJ	4 919	120
	<b>6 522</b>	<b>240</b>
<b>49. Utilisation of Long-term liabilities reconciliation</b>		
Long-term liabilities raised	88 161 686	78 682 144
Used to finance property, plant and equipment	(88 164 670)	(78 682 144)
	<b>(2 984)</b>	<b>-</b>

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

### 50. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus adjusted budgeted expenditure.

### 51. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E(2) for the comparison of actual capital expenditure versus adjusted budgeted expenditure.

### 52. 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.

A detailed list of deviations is available upon request.

# **Saldanha Bay Municipality**

Annual Financial Statements for the year ended 30 June 2011