Phumelela Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Legal form of entity	Municipality
Mayoral committee	Yes
Executive Mayor	Mr T.J. Motaung
Councillors	M.M. Kolatsoeu until 31 May 2011 (not re-elected)
	M.I. Kobeni
	O.S. Tshabalala
	B.D. Madonsela until 31 May 2011 (not re-elected)
	J.M. Mofokeng
	M.D. Nkabinde
	S.E. Tshabalala
	T.R. Zwane
	J.H. van Niekerk until 31 May 2011 (not re-elected)
	A.C. Scholtz until 31 May 2011 (not re-elected)
	J.M. Ngwenya-Sithebe
	D.A. Wessels
	O.A. Mokoena
	T.E. Radebe from 1 June 2011 (newly elected)
	S.M. Zwane from 1 June 2011 (newly elected)
	N.T. Masiteng from 1 June 2011 (newly elected)
	A.D. Radebe from 1 June 2011 (newly elected)
	L.M Msimanga from 1 June 2011 (newly elected)
Grading of local authority	Grade 1
Accounting Officer	Me M.J. Mthembu
Chief Finance Officer (CFO)	Mr T.M. Moremi
Registered office	Civic Centre Cnr. Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Cnr. Prinsloo and Kuhn Streets Vrede 9835
Postal address	Private Bag X5 Vrede 9835
Bankers	ABSA Bank Ltd
Auditors	Auditor General - Free State

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers

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IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act 2003 (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with GRAP.

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, she 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 have been examined by the municipality's external auditors.

The annual financial statements set out on pages 5 to 61, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 05 September 2011.

Accounting Officer
M.J. Mthembu

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in and operates principally in South Africa .

The operating results for the year were satisfactory for the following reasons. The financial position of the municipality is fair.

Net surplus of the municipality was R 39 741 339 (2010: surplus R 23 819 276).

2. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for the ongoing operations of the municipality.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements have been prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Me M.J. Mthembu

7. Auditors

The Auditor General - Free State will continue in office for the next financial period.

Phumelela Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand		Note(s)	2011	2010
Assets				
Current Assets				
Inventories	30.20	10	6 756 720	6 397 496
Financial assets	25.26-28	6	708 318	648 676
Trade and other receivables from exchange transactions	31.20	11	9 634 024	2 651 904
Other receivables from non-exchange transactions	33.20	12	653 249	130 852
VAT receivable	31.20	13	1 130 049	2 593 312
Consumer debtors	31.20	14	4 517 686	3 415 508
Cash and cash equivalents	32.20	15	3 332 634	2 391 866
			26 732 680	**18 229 614**
Non-Current Assets				
Investment property	21.20	4	35 933 438	35 933 438
Property, plant and equipment	20.20	5	185 842 677	157 071 000
Financial assets	25.26-28	6	172 659	166 308
			221 948 774	**193 170 746**
Non-current assets held for sale and assets of disposal groups	68.20	16	7 353 642	-
Total Assets			**256 035 096**	**211 400 360**
Liabilities				
Current Liabilities				
Financial liabilities	41.27-28	17	490 270	125 570
Trade and other payables from exchange transactions	51.20	20	40 833 598	39 828 196
Consumer deposits	51.20	21	234 172	228 588
Conditional grants and receipts	43.20	18	4 852 327	4 109 967
			46 410 367	**44 292 321**
Non-Current Liabilities				
Financial liabilities	41.27-28	17	3 067 213	1 565 858
Retirement benefit obligation	27.22	9	1 803 000	1 582 000
Provisions	52.20	19	1 503 000	450 000
			6 373 213	**3 597 858**
Total Liabilities			**52 783 580**	**47 890 179**
Net Assets			**203 251 516**	**163 510 181**
Net Assets				
Accumulated surplus	40.24		203 251 516	163 510 181

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue from exchange transactions			
Sale of goods		2 400	228 203
Rendering of services		470 422	404 499
Service charges	24	20 261 124	17 635 424
Rental of facilities and equipment	26	905 669	631 896
		21 639 61!	18 900 02:
Revenue from non-exchange transactions			
Property rates	23	5 798 747	4 090 534
Interest received (trading)		2 113 738	2 186 232
Fines		87 196	94 988
Licences and permits		13 099	12 700
Government grants & subsidies	25	79 920 418	69 053 951
		87 933 19!	75 438 40!
Other income	27	7 715 963	-
Interest received - investment	32	210 759	179 555
Total income		**117 499 535**	**94 517 982**
Expenditure			
Personnel	30	(22 752 924)	(19 353 428)
Remuneration of councillors	31	(3 048 361)	(2 760 680)
Depreciation and amortisation	33	(284 669)	(16 772)
Finance costs	34	(486 242)	(617 532)
Debt impairment	50	(11 719 645)	(9 173 807)
Repairs and maintenance		(8 054 321)	(6 362 819)
Bulk purchases	37	(12 857 472)	(14 791 381)
Contracted services	36	(2 077 372)	(693 842)
Operating grant expenditure		(2 833 819)	(3 553 459)
General Expenses	28	(13 643 371)	(13 374 986)
Total Expenditure		**(77 758 196)**	**(70 698 706)**
Surplus for the year	**29**	**39 741 339**	**23 819 276**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	157 451 325	157 451 325
Adjustments		
Prior period adjustment refer to note	(17 760 420)	(17 760 420)
Balance at 01 July 2009 as restated	**139 690 905**	**139 690 905**
Changes in net assets		
Surplus/(deficit) for the period	23 819 276	23 819 276
Total changes	23 819 276	23 819 276
Balance at 01 July 2010	**163 510 177**	**163 510 177**
Changes in net assets		
Surplus/(deficit) for the period	39 741 339	39 741 339
Total changes	39 741 339	39 741 339
Balance at 30 June 2011	**203 251 516**	**203 251 516**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		13 238 048	19 975 850
Grants		79 920 418	67 064 112
Interest income received		210 759	179 555
Other receipts		5 266 963	5 546 402
		98 636 188	92 765 919
Payments			
Employee costs		(25 801 285)	(20 804 155)
Suppliers		(35 621 550)	(28 481 551)
Finance costs		(486 242)	(617 532)
Other payments		(1 176 412)	(8 756 847)
		(63 085 489)	(58 660 085)
Net cash flows from operating activities	38	**35 550 699**	**34 105 834**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(36 409 989)	(28 691 456)
Proceeds from sale of financial assets		(65 993)	603 387
Net cash flows from investing activities		**(36 475 982)**	**(28 088 069)**
Cash flows from financing activities			
Repayment of financial liabilities		1 866 055	(86 008)
Net cash flows from financing activities		**1 866 055**	**(86 008)**
Net increase/(decrease) in cash and cash equivalents		**940 772**	**5 931 757**
Cash and cash equivalents at the beginning of the year		2 391 866	(3 539 891)
Cash and cash equivalents at the end of the year	15	**3 332 638**	**2 391 866**

Accounting Policies

1. Presentation of annual financial statements

Phumelela Local Municipality ("the municipality") is a local government institution in the Thabo Mofutsanyana district, Free State Province. The address of its registered office, principal place of business and its principal activities are disclosed under "General Information" in the annual report.

2. Presentation of annual financial statements

2.1 Statement of compliance

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.

2.2 Going concern assumption

The annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next twelve months.

2.3 Functional and presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.4 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

2.5 Use of estimates and judgements

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements as well as assumptions and estimated uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 2.5.

2.6 Property, plant and equipment

Refer to note 2.2 for details of the transitional provisions applied during the financial year. The policy set out below has been applied only to the extent that the requirement is not covered by the relevant transitional provision.

2.6 Property, plant and equipment (continued)

Initial recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When the use of a property changes from owner-occupied to investment property carried at fair value using the fair value model, the property is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is treated in the same way as a revaluation in terms of GRAP 17 as follows:

- any resulting decrease in the carrying amount of the property is recognised in surplus or deficit. However, to the extent that an amount is included in a revaluation surplus for that property, the decrease is charged against that revaluation surplus.
- any resulting increase in the carrying amount is treated as follows:
- to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.
- any remaining part of the increase is credited directly to the revaluation surplus in net assets. On subsequent disposal of the investment property, the revaluation surplus included in net assets may be transferred to accumulated surplus or deficit. The transfer from revaluation surplus to accumulated surplus or deficit is not made through surplus or deficit.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is however debited directly to a revaluation surplus in respect of that asset.

The revaluation surplus relating to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

Subsequent cost

2.6 Property, plant and equipment (continued)

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, depreciated on the straight line basis over their expected useful lives.

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 *Non-current assets held for sale and discontinued operations*. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Rehabilitation costs capitalised to the cost of landfill sites are written off on a straight-line basis over the estimated useful lives of the sites.

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

The useful lives for the current and previous financial year are as follows:

Item	**Estimated useful life**
Land and buildings	
• Land	Not applicable
• Buildings	30 Years
Infrastructure assets	
• Electricity	20 Years
• Roads	15 Years
• Water	20 Years
• Sewerage	20 Years
Other assets	
• Office equipment	5 Years
• IT Equipment	3 Years
• Other Assets	10 Years
• Furniture and fittings	6 Years
• Motor vehicles	7 Years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Spare parts

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

Derecognition

2.6 Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential is expected from its continued use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other revenue in surplus or deficit.

Leased assets

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Upon initial recognition of assets leased under finance leases, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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

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

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

2.7 Investment property

Investment property is property held either to earn rental income 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 business.

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

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.

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.

Property interests held by the municipality (lessee) under an operating lease are accounted for as investment property.

The initial cost of a property interest held under a lease classified as an investment property, shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

2.7 Investment property (continued)

The fair value of investment properties is determined at the reporting date by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The valuations are based on the value of similar properties in the market.

Fair value

Investment property is subsequently measured at fair value with any change therein recognised in surplus or deficit .

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Cost model

Investment property is subsequently measured at historical cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

2.8 Financial instruments

Classification

The municipality classifies financial instruments , or their component parts, on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Financial assets at fair value through profit or loss

2.8 Financial instruments (continued)

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

- They are classified as held for trading; or
- Upon initial recognition they are designated as at fair value through profit or loss.

Financial assets are designated as at fair value through profit or loss if the municipality manages such investments and makes purchase and sale decisions based on their fair value in accordance with the municipality's documented risk management or investment strategy.

Financial assets at fair value through profit or loss are measured initially and subsequently at fair value and gains and losses arising from changes in fair value are recognised in surplus or deficit for the period. Transaction costs are recognised in surplus or deficit.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment losses.

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the municipality's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity. Held-to-maturity investments are initially recognised at fair value plus direct transaction costs. At subsequent reporting dates, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the municipality from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. Available-for-sale financial assets are initially measured at fair value plus direct transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised in net assets and presented in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in net assets is transferred to surplus or deficit.

Initial recognition and measurement

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

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

2.8 Financial instruments (continued)

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

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at settlement date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at fair value less accumulated impairment losses.

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

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

2.9 Inventories

Cost

The cost of inventories comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at the date of acquisition. Cost is generally determined using the first-in-first-out principle except where stated otherwise.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods are measured at cost

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

Unsold properties are measured at fair value.

Redundant and slow-moving inventories are identified and written down to fair value.

The amount of any write-down of inventories to fair 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 fair value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Water inventory

Water inventory represents water housed in reservoirs within the municipal area and is measured at the net realisable value, which is deemed to be fair value. In the absence of a market that trades in water outside of local government, the fair value utilised to quantify water inventory is based on the unit reference value. The unit reference value is a determined by a formula that is utilised in the engineering department to calculate the development cost of new water resources.

The water levels in the reservoirs are based on cubic meter capacity taking into account the capacity of the reservoir.

Readings of water levels are taken at year-end, which is quantified at the above fair value.

Water and purified effluent are measured at the lowest of purified cost and net realisable value insofar as it is stored and controlled in reservoirs at year-end.

2.10 Impairment

Financial assets

A financial asset, not carried at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the

2.10 Impairment (continued)

security below its cost is considered an indicator of impairment.

The municipality considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in net assets, and presented in the fair value reserve, to surplus or deficit. The cumulative loss that is removed from the fair value reserve and recognised in surplus or deficit is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in surplus or deficit. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in surplus or deficit, then the impairment loss is reversed, with the amount of the reversal recognised in surplus or deficit. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in net assets.

Impairment losses are not subsequently reversed for equity instruments which are carried at cost because fair value was not determinable.

Non-financial assets

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.

The carrying amounts of the municipality's cash generating non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually.

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. For the purpose of impairment testing, assets are therefore grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

2.10 Impairment (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in surplus or deficit.

Impairment losses recognised in respect of cash-generating units are allocated on a pro rata basis to reduce the carrying amounts of the other assets in the unit. The allocation of impairment losses to assets in a cash generating unit may not reduce the carrying amount of such assets below the highest of its fair value less costs to sell, value in use and zero.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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. 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 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 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.

Non-cash-generating assets

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

The carrying amounts of the municipality’s non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset’s fair value less costs to sell and its value in use.

The value in use of a non-cash-generating asset is the present value of the non-cash-generating asset’s remaining service potential.

The present value of the remaining service potential of a non-cash-generating 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has

2.10 Impairment (continued)

decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable service amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.11 Revenue

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Revenue from exchange transactions

Revenue is generally recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits or service potential can be measured reliably, except when specifically stated otherwise. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

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.

Service charges

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

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

Service charges from sewerage and sanitation services are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is recognised on a monthly basis.

Pre-paid electricity

Revenue from exchange transactions (continued)

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale.Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Interest, royalties and dividends

Interest earned and rentals received

Interest income is recognised in surplus or deficit as it accrues, using the effective interest method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

Rental income from operating leases is recognised on a straight line basis over the lease term.

Dividends

Dividends are recognised on the date that the municipality’s right to receive the dividend has been established.

Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreements.

Other

Tariff charges

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

Agency commission

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

Housing rental and instalments

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from non-exchange transactions

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from non-exchange transactions (continued)

Rates and taxes

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Fines consist of spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

An estimate is made for revenue from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue is recognised when the public prosecutor pays the cash collected over to the municipality.

Receipt of community services in exchange for a fine is not recognised as revenue.

Donations and contributions

Revenue from donations is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

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

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the recognition criteria had been met, as assets in the reporting period in which they are received or receivable.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably and to the extent that there has been compliance with

Accounting Policies

Revenue from non-exchange transactions (continued)

any restrictions associated with the grant.

Interest earned on investments is treated in accordance with grant conditions. If interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the statement of financial performance.

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.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

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 its capacity of an agent, the fine is not recognised as revenue.

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.

2.12 Provisions

A provision is recognised if, as a result of a past event, the municipality has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments

2.12 Provisions (continued)
of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

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.

Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the municipality from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

Reimbursements

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 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.

Restructurings

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly.

2.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered.

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 expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

Defined contribution plans

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

The municipality’s contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees,

2.13 Employee benefits (continued)

unless another standard requires or permits the inclusion of the contribution in the cost of an asset. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after end of the period in which the employees render the related service, they are discounted using a risk-free rate determined by reference to market yields at the reporting date on government bonds, or by reference to market yields on high quality corporate bonds.

The municipality contributes to various national-and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer plans and are accounted for as defined contribution plans as there is no consistent and reliable basis available for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. The contributions to fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national-or provincial level using the projected unit credit method. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined benefit plans

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. It defines an amount of benefit that an employee will receive on retirement. The municipality’s net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine its present value. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the municipality’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the municipality, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the municipality. An economic benefit is available to the municipality if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. The expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in surplus or deficit on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in surplus or deficit.

2.14 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.

2.14 Leases (continued)

Finance leases - municipality as lessee

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

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

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

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

Subsequent to initial recognition, the asset is account for in accordance with the accounting policy applicable to that asset.

Assets leased under operating leases, except for property interests held by the municipality as investment property, are not recognised in the statement of financial position.

Operating leases - municipality as lessee

Operating lease payments are recognised in surplus or deficit 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.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Finance leases - municipality as lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Operating leases - municipality as 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.

Finance sale and leaseback

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller – lessee. The excess amount is deferred and amortised over the lease term.

Operating sale and leaseback

2.14 Leases (continued)

Where the sale and leaseback results in an operating lease and the transactions is accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.
- If the sale price is below fair value, any gain or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.
- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.15 Borrowing costs

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

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

2.16 Donations and grants in aid

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

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

These transfers are recognised as expenses in surplus or deficit in the period that the events giving rise to the transfer occur.

2.17 Tax

Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

2.18 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.19 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 policies. Irregular expenditure excludes unauthorised expenditure. Irregular

2.19 Irregular expenditure (continued)

expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is recovered or written off as irrecoverable.

2.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as a receivable in the statement of financial position until such expenditure is recovered or written off as irrecoverable.

2.21 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. The municipality 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.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the municipality's accounting policies for the individual assets. Subsequently, non-current assets held for sale (or disposal group) are measured at either the lower of its carrying amount and fair value less costs to sell or historical cost.

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.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in surplus or deficit.

Any impairment loss on a disposal group is allocated to assets and liabilities on pro rata basis. No loss is allocated to inventories, agricultural assets, financial assets, employee benefit assets and investment property, which continue to be measured in accordance with the municipality's accounting policies.

Gains on the subsequent increase in fair value less costs to sell are not recognised in excess of any cumulative impairment loss. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

2.22 Accounting estimates and judgements

Key sources of estimation uncertainty

Impairment of trade and other receivables

The impairment of the municipality's trade and other receivables is based on incurred losses in accordance with the requirements of IAS 39. The historical loss experience of the municipality, based on observable data through the passage of time, is used to estimate the impairment of trade and other receivables. Any changes in the payment status of customers in a specific group or national or local economic conditions that correlate with defaults on the assets in the group will have an impact on the impairment of trade and other receivables.

Provisions

The provisions raised by the municipality are detailed in note 19. These provisions represent management's best estimate of the municipality's exposure. The probability that an outflow of economic resources will be required to settle the obligation

Accounting Policies

2.22 Accounting estimates and judgements (continued)

must be assessed and a reliable estimate must be made of the amount of the obligation. Actual results may, however, differ from these estimates.

Allowance for slow moving, damaged and obsolete stock

Management has made estimates of the selling price and direct cost to sell of certain inventory items to calculate the allowance to write stock down to the lower of cost or net realisable value. The write down is included in note 29.

Fair value estimation

The fair value information presented by the municipality in note 7 requires the application of valuation techniques and assumptions based on market conditions existing at the end of the reporting period. The actual fair values may differ from those estimated.

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, which include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations. Additional information is disclosed in Note 9.

Critical judgements in applying accounting policies

Depreciation and the carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated remaining useful lives of items of property, plant and equipment will have an impact on the carrying value of these items.

Identification of impairment indicators

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The municipality applies the impairment assessment to its assets or separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Determination of the recoverable amount of cash-generating assets

Where impairment indicators exist, the determination of the recoverable amount of assets or cash generating units require management to make assumptions to determine the fair value less costs to sell. Key assumptions on which management has based its determination of fair values less costs to sell include projected revenues, earnings multiple, capital expenditure and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of the impairment.

2.23 Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

2.23 Finance income and expenses (continued)

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in surplus or deficit using the effective interest method.

2.25 Budget information

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

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

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 51.

Comparative information is not required.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

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

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

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

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

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

The impact of the interpretation is not material.

GRAP 25: Employee benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the 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.

The standard also includes detailed requirements to be applied in the accounting for:

- Post-employment benefits;
- Other long-term employee benefits; and
- Termination benefits

The impact of the standard is not material.

3.2 Standards issued and not yet effective

The following standards expected to be applicable to the municipality have been issued, but are not yet effective:

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance. The effective dates are currently unknown. International Financial Reporting Standards will be applied from the effective date of the Standard as indicated below.

GRAP 18: Segment Reporting

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

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

3. New standards and interpretations (continued)

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

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

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

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 24: Presentation of Budget Information

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

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

Where the municipality prepares its budget and annual financial statements on a comparable basis, it is required to include 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.

Although the municipality currently presents budget information in terms of legislation, additional disclosure is required in terms of GRAP 24.

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The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 103: Heritage Assets

Heritage assets are 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 means that they are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

Heritage assets are recognised at cost unless they are acquired through a non-exchange transaction, in which case they are recognised at their fair value as at the date of acquisition.

The municipality has a choice between the cost and revaluation model as an accounting policy for subsequent measurement and is required to apply the chosen policy to an entire class of heritage assets.

Heritage assets are subsequently carried at their cost or revalued amount less accumulated impairment. These assets are not depreciated.

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.

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

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

GRAP 26: 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.

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, the municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality should estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality should apply 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.

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

GRAP 104: Financial Instruments

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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 entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests.

Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument.

Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.

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

4. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	35 933 438	-	35 933 438	35 933 438	-	35 933 438

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	35 933 438	35 933 438

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	35 933 438	35 933 438

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.

Details of valuation

The fair value of the investment properties had not been determined at year end and the municipality is in the process of engaging with valuators to obtained fair values.

Amounts recognised in surplus and deficit for the year.

	2011	2010
Rental revenue from investment property	905 669	631 896

5. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Land	10 888 058	(5 486)	10 882 572	14 910 505	(11 621)	14 898 884
Buildings	4 234 473	-	4 234 473	3 939 721	-	3 939 721
Plant and machinery	8 308 911	(12 644)	8 296 267	6 066 317	(333)	6 065 984
Furniture and fixtures	25 890	(366)	25 524	92 228	-	92 228
Motor vehicles	2 315 296	(14 262)	2 301 034	2 904 320	(1 375)	2 902 945
Office equipment	2 043 171	(158 014)	1 885 157	196 232	-	196 232
IT equipment	152 763	(18 332)	134 431	106 876	-	106 876
Infrastructure	45 153 889	(5 896)	45 147 993	28 743 711	(2 746)	28 740 965
Community	122 703	(61 351)	61 352	-	-	-
Other property, plant and equipment	766 436	(9 347)	757 089	347 409	-	347 409
Wastewater network	56 264 125	-	56 264 125	50 010 785	-	50 010 785
Water network	55 868 403	(15 743)	55 852 660	49 769 669	(698)	49 768 971
Total	**186 144 118**	**(301 441)**	**185 842 677**	**157 087 773**	**(16 773)**	**157 071 000**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Classified as held for sale	Transfers	Depreciation	Total
Land	14 898 884	-	(3 899 744)	(116 568)	-	10 882 572
Buildings	3 939 721	819 193	(524 441)	-	-	4 234 473
Plant and machinery	6 065 984	3 111 413	(868 819)	-	(12 311)	8 296 267
Furniture and fixtures	92 228	4 482	(70 820)	-	(366)	25 524
Motor vehicles	2 902 945	-	(589 024)	-	(12 887)	2 301 034
Office equipment	196 232	1 898 696	(51 757)	-	(158 014)	1 885 157
IT equipment	106 876	169 839	(123 952)	-	(18 332)	134 431
Infrastructure	28 740 965	17 186 688	(776 510)	-	(3 150)	45 147 993
Community	-	-	-	116 568	(55 216)	61 352
Other property, plant and equipment	347 409	579 818	(160 791)	-	(9 347)	757 089
Wastewater network	50 010 785	6 490 750	(237 410)	-	-	56 264 125
Water network	49 768 971	6 149 110	(50 376)	-	(15 045)	55 852 660
	157 071 000	**36 409 989**	**(7 353 644)**	**-**	**(284 668)**	**185 842 677**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	14 633 542	276 963	(11 621)	-	14 898 884
Buildings	4 129 516	-	-	(189 795)	3 939 721
Plant and machinery	7 091 791	280 434	(333)	(1 305 908)	6 065 984
Furniture and fixtures	489 881	-	-	(397 653)	92 228
Motor vehicles	3 817 262	55 000	(1 375)	(967 942)	2 902 945
Office equipment	487 132	-	-	(290 900)	196 232
IT equipment	503 256	-	-	(396 380)	106 876
Infrastructure	17 338 429	14 834 124	(2 746)	(3 428 842)	28 740 965
Other property, plant and equipment	579 036	-	-	(231 627)	347 409
Wastewater network	69 761 866	10 490 626	-	(30 241 707)	50 010 785
Water network	48 180 777	2 754 309	(698)	(1 165 417)	49 768 971
	167 012 488	**28 691 456**	**(16 773)**	**(38 616 171)**	**157 071 000**

Pledged as security

Non of the assets have been pledge as security.

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.

Figures in Rand	2011	2010
6. Financial assets		
Available-for-sale		
Unlisted shares	5 020	5 020
At cost		
Member's funds	167 639	161 288
At cost		
	172 659	**166 308**
Held to maturity		
Other financial assets	708 318	648 676
Terms and conditions		
Total other financial assets	**880 977**	**814 984**
Non-current assets		
Available-for-sale	172 659	166 308
Current assets		
Held to maturity	708 318	648 676
	880 977	**814 984**

Fair value information

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of held-to-maturity investments is determined for disclosure purposes only.

Where quoted market prices are not available, valuation techniques are used to determine fair value, as explained below:

The fair value of unlisted investments were estimated using the fund value as determined by the institution. The fair value is determined annually at the reporting date.

Fair value hierarchy of financial assets at fair value through surplus or deficit

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 - quoted prices (unadjusted)in active markets for identical assets.

Level 2 - inputs other than quoted prices included in level 1 that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 - inputs which are not based on observable market data.

	2011	2010
Level 2		
Unlisted Investments	880 977	814 984

Renegotiated terms

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Financial assets (continued)

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

Available-for-sale equity investments not at fair value

Fair value information has not been provided for equity instruments that do not have a quoted market price and for which a fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

	2011	2010
Vrystaat Koop Ltd		
Shares	5 000	5 000
Taurus Ltd		
Shares	20	20

In accordance with IAS 39 and 46,the shares were carried at cost as they are unlisted shares and share price could not be determined reliably.

The municipality does not intend to dispose of the investments in the near future.

The maximum exposure to credit risk at the reporting date is the carrying amount of the held to maturity financial assets.

Fair value of held to maturity investments

	2011	2010
Sanlam Investment	708 318	648 676

The municipality has been furnished with a certificate by Sanlam stating the fair value of the investment.

7. Financial assets by category

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

2011

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets (Current)	-	708 318	-	708 318
Other financial assets (non-current)	-	-	172 659	172 659
Trade and other receivables from exchange transactions	9 634 024	-	-	9 634 024
Cash and cash equivalents	3 322 191	-	-	3 322 191
Consumer Receivables	4 517 686	-	-	4 517 686
	17 473 901	**708 318**	**172 659**	**18 354 878**

7. Financial assets by category (continued)

2010

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets (current)	-	648 676	-	648 676
Other financial assets (non-current)	-	-	166 308	166 308
Other receivables from exchange transactions	2 651 904	-	-	2 651 904
Consumer receivables	3 415 508	-	-	3 415 508
Cash and cash equivalents	2 391 866	-	-	2 391 866
	8 459 278	**648 676**	**166 308**	**9 274 262**

8. Transferred financial assets which did not qualify for derecognition

9. Retirement benefits

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to Pensions Fund Act, exist for this purpose. The majority of employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation was dated 30 June 2005. A new valuation is curently being finalised and will be submitted to the municipality once approved by the executive commitee of the fund. No information could be obtained for the other two funds regarding the administrators nor the actuarial valuations.

The municipality is under no obligation to cover any unfunded benefits.

Post retirement medical aid plan

The municipality contributes on a monthly basis to the folowing medical aid scheme:

Keyhealth

Carrying value

	2011	2010
Present value of the defined benefit obligation-wholly unfunded	(1 803 000)	(1 582 000)

Movements for the year

	2011	2010
Opening balance	(1 582 000)	(1 141 053)
Contributions by members	-	(156 275)
Benefits paid	-	156 275
Net expense recognised in the statement of financial performance	(221 000)	(440 947)
	(1 803 000)	**(1 582 000)**

Net expense recognised in the statement of financial performance

	2011	2010
Past service cost	-	(473 987)
Actuarial (gains) losses	(221 000)	33 040
	(221 000)	**(440 947)**

9. Retirement benefits (continued)

Key assumptions used

Assumptions used on last valuation on 22 August 2011.

Discount rates used	1.61 %	6.00 %
Expected rate of return on assets	8.90 %	- %
Assumed Medical Inflation	7.15 %	10.00 %

10. Inventories

Consumable stores	720 999	370 154
Water	91 656	83 277
Unsold Properties Held for Resale	5 944 065	5 944 065
	6 756 720	**6 397 496**

11. Trade and other receivables from exchange transactions

Trade debtors	1 889 738	1 841 726
Prepayments	-	805 281
Sundry debtors	28 323	4 897
Krynaauwslust Boerdery Trust	7 715 963	-
	9 634 024	**2 651 904**

Credit quality of trade and other receivables

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

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

12. Other receivables from non-exchange transactions

Government grants and subsidies	653 249	130 852

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

13. VAT receivable

VAT receivable	1 130 049	2 593 312

VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

Figures in Rand	2011	2010

14. Consumer debtors

Gross balances		
Rates	9 770 645	6 363 543
Electricity	2 128 919	2 262 367
Water	11 464 775	7 900 933
Sewerage	14 666 008	11 505 000
Refuse	15 757 670	12 496 790
Other	392 628	106 752
Housing rental	74 493	61 843
Deposits no receipts	(874 354)	(259 847)
	53 380 784	**40 437 381**

Less: Provision for debt impairment		
Rates	(6 500 623)	(6 055 675)
Electricity	(1 590 215)	(1 596 692)
Water	(11 200 952)	(7 355 036)
Sewerage	(14 240 556)	(10 422 734)
Refuse	(15 330 038)	(11 451 483)
Other (specify)	(714)	(140 253)
	(48 863 098)	**(37 021 873)**

Net balance		
Rates	3 270 022	307 868
Electricity	538 704	665 675
Water	263 823	545 897
Sewerage	425 452	1 082 266
Refuse	427 632	1 045 307
Business service levies	392 628	106 752
Housing rental	74 493	61 843
Other (specify)	(875 068)	(400 100)
	4 517 686	**3 415 508**

Rates		
Current (0 -30 days)	658 590	84 794
31 - 60 days	282 451	83 491
61 - 90 days	1 689 760	83 362
91 - 120 days	282 973	56 221
121 - 365 days	356 248	-
	3 270 022	**307 868**

Electricity		
Current (0 -30 days)	230 852	427 349
31 - 60 days	160 635	58 989
61 - 90 days	70 948	57 383
91 - 120 days	64 715	121 954
121 - 365 days	11 554	-
	538 704	**665 675**

Water		
Current (0 -30 days)	18 892	204 187

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Consumer debtors (continued)

31 - 60 days	89 424	204 010
61 - 90 days	108 759	137 700
91 - 120 days	25 062	-
121 - 365 days	21 686	-
	263 823	**545 897**

Sewerage

Current (0 -30 days)	180 498	334 252
31 - 60 days	135 709	332 477
61 - 90 days	97 258	317 376
91 - 120 days	11 987	98 161
	425 452	**1 082 266**

Refuse

Current (0 -30 days)	143 823	327 315
31 - 60 days	144 673	329 407
61 - 90 days	114 712	314 483
91 - 120 days	24 424	74 102
	427 632	**1 045 307**

Other

Current (0 -30 days)	42 110	5 268
31 - 60 days	30 023	5 268
61 - 90 days	19 376	5 268
91 - 120 days	21 894	5 268
121 - 365 days	279 225	85 680
	392 628	**106 752**

Housing rental

Current (0 -30 days)	3 859	1 558
31 - 60 days	3 859	1 558
61 - 90 days	1 760	1 558
91 - 120 days	1 760	1 558
121 - 365 days	1 760	55 611
> 365 days	61 495	-
	74 493	**61 843**

Deposits no Receipts

Current (0 -30 days)	(875 068)	(400 100)

Reconciliation of debt impairment provision

Balance at beginning of the year	(37 021 873)	(47 063 776)
Contributions to provision	(12 593 066)	(9 173 807)
Debt impairment written off against provision	751 841	19 215 710
	(48 863 098)	**(37 021 873)**

Consumer debtors pledged as security

None of the consumers receivables were pledge as security.

Figures in Rand	2011	2010

14. Consumer debtors (continued)

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

15. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011	2010
Cash on hand	6 390	6 390
Bank balances	171 603	272 167
Short-term deposits	3 154 641	2 113 309
	3 332 634	**2 391 866**

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 about counterparty default rates:

The economic entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
ABSA Bank - Current	477 900	272 167	(4 258 218)	171 603	272 167	(4 258 218)
ABSA Bank - Money market	-	514 849	479 804	-	514 849	479 804
ABSA Bank Call Accounts	3 044 198	1 598 460	148 722	3 044 198	1 598 460	148 722
ABSA Bank Medium Term Deposit	110 443	-	-	110 443	-	-
Total	**3 632 541**	**2 385 476**	**(3 629 692)**	**3 326 244**	**2 385 476**	**(3 629 692)**

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

The non-current assets are to be disposed of on a piecemeal basis.

The disposals are expected to be completed by 31 December 2011.

Surplus / Deficit

Assets and liabilities

Non-current assets held for sale

	2011	2010
Property, plant and equipment	7 353 642	-

17. Financial liabilities

At fair value through surplus or deficit

	2011	2010
ABSA Bank Ltd	358 703	-
DBSA	131 567	125 570
	490 270	**125 570**

Measured at amortised cost

	2011	2010
Loan ABSA Bank over Equipment	1 634 083	-
DBSA Loans	1 433 130	1 565 858
	3 067 213	**1 565 858**

Figures in Rand	2011	2010

17. Financial liabilities (continued)

	3 557 483	**1 691 428**

Annuity Loans are unsecured and financed by the Development Bank of South Africa and repayments are made on a six monthly basis. The last loan will be redeemed in 2019. The loans carried interest at rates between 12% and 17%.

The loan from ABSA Bank Ltd was for the purchase of Office Equipment. Monthly repayments R 44 489. Interest 9% p.a.linked to prime rate.

Refer to Appendix A for more detail on other financial liabilities.

The municipality did not default on any principal or interest repayments during the period for loans payable. No terms were renogotiated before the financial statements were authorised for issue.

	2011	2010
Non-current liabilities		
At amortised cost	3 067 213	1 565 858
Current liabilities		
Fair value through surplus or deficit	490 270	125 570
	3 557 483	**1 691 428**

18. Conditional grants and receipts

Unspent conditional grants and receipts comprise:

	2011	2010
Unspent conditional grants and receipts		
MIG	-	454 260
DWAF Drought Relief	1 810 707	1 810 707
COGTA - Waste Disposal Site	219 574	445 000
Social Development Grant	602 847	1 400 000
COGTA - Water Treatment Plant Warden	2 219 199	-
	4 852 327	**4 109 967**

Movement during the year

	2011	2010
Balance at the beginning of the year	4 109 967	3 458 945
Received during the year	32 938 512	29 535 223
Income recognition during the year	(33 076 152)	(28 004 525)
Transfer back to donor	880 00	(879 67
	4 852 327	**4 109 967**

Unspent conditional grants that were set-off against equitable share in the previous year were recouped in March 2011.

See note 25 for the reconciliation of other grants from National/Provincial Government.

Figures in Rand	2011	2010

19. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	450 000	1 053 000	1 503 000

Reconciliation of provisions - 2010

	Opening Balance	Additions - Increase due to unwinding of discount	Total
Environmental rehabilitation	-	450 000	450 000

Provision for rehabilitation of 3 landfill sites .

An estimate were obtained from a proffesional engineer. (R501 000 per landfill site)

20. Trade and other payables from exchange transactions

	2011	2010
Trade payables	40 200 224	39 812 580
Deposits received	633 374	15 616
	40 833 598	**39 828 196**

Fair value of trade and other payables

The municipality did default on the payment of some suppliers within the average of 30 days.

21. Consumer deposits

	2011	2010
Water	234 172	228 588
Guarantees held in lieu of electricity and water deposits	-	-

22. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	3 557 483	3 557 483
Trade and other payables	40 833 598	40 833 598
Consumer deposits	234 172	234 172
	44 625 253	**44 625 253**

2010

	Financial liabilities at amortised cost	Total
Other financial liabilities	1 691 428	1 691 428
Trade and other payables	39 828 196	39 828 196
Consumer deposits	228 588	228 588
	41 748 212	**41 748 212**

23. Property rates

Rates received

Residential	2 576 241	2 507 893
Small holdings and farms	3 222 506	1 582 641
	5 798 747	**4 090 534**

Valuations

Valuations on which property rates are based are performed every 5 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 R0.0042(2010 R0.0042) is applied to the value of residential property, R0.0060(2010 R0.0060) on business property and government property. Government get a discount of 30%. A rate of R0.00105(2010 R0.00105) is applied to agricultural properties.

Rates are levied on a monthly basis.

24. Service charges

Sale of electricity	4 923 999	4 743 489
Sale of water	4 869 421	3 428 612
Solid waste	5 098 383	4 628 477
Sewerage and sanitation charges	5 369 321	4 834 846
	20 261 124	**17 635 424**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. Government grants and subsidies

Equitable share	44 237 276	35 457 581
Finance Mangement Grant	3 000 000	2 750 000
Municipal System Information Grant	750 000	735 000
COGTA - CFO Grant	781 077	111 583
DBSA - Electricity plan	-	450 300
COGTA - Operating grant	-	1 500 000
DWAF	-	764 274
Social Development Grant	797 153	-
Thabo Mofutsanyana District Municipality	321 024	-
COGTA - Landfill sites	625 426	-
COGTA - Water Treatment Works Warden	698 335	-
Sedibeng Water - Sewerage network Warden	483 772	-
THETHA	-	24 352
Town planning scheme	-	20 610
MIG	16 662 260	18 221 512
COGTA	11 564 095	9 018 739
	79 920 418	**69 053 951**

Equitable Share

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

MIG Grant

Balance unspent at beginning of year	454 260	1 648 238
Current-year receipts	15 328 000	17 907 300
Conditions met - transferred to revenue	(16 662 260)	(18 221 512)
Previous amount deducted paid back	880 000	(879 766)
	-	**454 260**

Conditions met - transferred to revenue (capital expenditure) note 18)

The grant is utilised to supplement municipal capital budget to eradicate backlogs in municipal infrastructure providing basic services for the benefit of poor households. The grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

Figures in Rand	2011	2010

25. Government grants and subsidies (continued)

DWAF - Drought relief

Balance unspent at beginning of year	1 810 707	1 810 707

The conditions of the grant have been met and no monies have been withheld. (see note 18)

COGTA - Human Setttlement Warden

Balance unspent at beginning of year	166 577	-
Current-year receipts	5 744 752	8 852 162
Conditions met - transferred to revenue	(5 202 175)	(9 018 739)
VAT - Recovered from SARS	(709 154)	-
	-	**166 577**

The conditions of the grant have been met and no monies have been withheld. (see note 18)

COGTA - Landfill sites

Balance unspent at beginning of year	445 000	-
Current-year receipts	400 000	445 000
Conditions met - transferred to revenue	(625 426)	-
	219 574	**445 000**

Conditions still to be met - remain liabilities (see note 18)

COGTA - Social development grant

Balance unspent at beginning of year	1 400 000	-
Current-year receipts	-	1 400 000
Conditions met - transferred to revenue	(797 153)	-
	602 847	**1 400 000**

Conditions still to be met - remain liabilities (see note 18)

COGTA - Water treatment Warden

Current-year receipts	3 015 000	-
Conditions met - transferred to revenue	(698 335)	-
VAT - recovered from SARS	(97 466)	-
	2 219 199	**-**

Conditions still to be met - remain liabilities (see note 18)

Changes in level of government grants

According to the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected during the next 3 financial years.

26. Rental of facilities and equipment

Rental of facilities	905 669	631 896

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. Rental of facilities and equipment (continued)

27. Other income

Income awarded by Krynaauwslust Boerdery Trust	7 715 963	-

For related party transactions - refer to note

28. General expenses

Advertising	196 358	133 871
Auditors remuneration	1 878 889	1 136 099
Bank charges	213 404	203 728
Chemicals	1 075 328	930 847
Community development and training	77 726	40 389
Conferences and delegations	130 986	5 756
Consulting and professional fees	1 842 538	2 697 806
Consumables	151 285	629 772
Debt collection commission	1 010	817
Entertainment	37 119	26 935
Flowers	10 601	-
Fuel and oil	767 974	757 589
Gifts	44 874	19 420
Insurance	542 618	487 689
Lease rentals on operating lease	1 817 670	1 847 203
Magazines, books and periodicals	2 270	7 274
Medical expenses	714	1 045
Other expenses	122 230	121 343
Postage and courier	84 023	288 240
Printing and stationery	462 299	360 395
Promotions	28 793	36 034
Protective clothing	400 697	239 873
Refuse	2 163 100	1 957 564
Royalties and license fees	805	6 613
Subscriptions and membership fees	131 148	110 748
Telephone and fax	776 739	568 455
Title deed search fees	10 970	4 742
Training	61 407	176 937
Travel and subsistence	609 796	577 802
	13 643 371	**13 374 986**

29. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	1 420 002	1 328 556
Plant and equipment		
• Contingent amounts	397 668	518 647
	1 817 670	**1 847 203**
Depreciation on property, plant and equipment	284 669	16 772
Employee costs	25 801 285	22 114 108

Figures in Rand	2011	2010

29. Operating surplus (continued)

30. Employee related costs

Basic	15 447 542	12 491 546
Medical aid - company contributions	881 896	1 026 050
UIF contributions	165 079	136 775
WCA contributions	84 335	61 464
SDL	208 303	179 446
Other payroll levies	15 550	14 879
Leave pay provision charge	(890 457)	(525 992)
Post-employment benefits - Pension - Defined contribution plan	1 907 926	1 783 939
Overtime payments	1 271 256	1 145 686
Long-service awards	17 636	113 937
13th Cheques and other bonuses	1 052 005	939 535
Acting allowances	116 321	99 682
Car allowance	91 340	81 628
Housing benefits and allowances	34 029	32 550
Occupational Allowance	191 576	183 989
Standby Allowance	157 856	107 608
	20 752 193	**17 872 722**

Remuneration of Municipal Manager

Annual Remuneration	494 880	436 800
Car Allowance	144 000	144 000
	638 880	**580 800**

Remuneration of Chief Finance Officer

Annual Remuneration	224 714	-
Car Allowance	120 786	-
	345 500	**-**

Assumed office in January 2011

Remuneration of Director Corporate Services

Annual Remuneration	351 414	308 682
Car Allowance	132 000	135 483
Performance and other bonuses	24 495	20 958
	507 909	**465 123**

Remuneration of Director Technical Services

Annual Remuneration	388 442	314 783
Car Allowance	120 000	120 000
	508 442	**434 783**

31. Remuneration of councillors

Figures in Rand	2011	2010

31. Remuneration of councillors (continued)

Executive Mayor	602 208	572 102
Councillors	2 446 153	2 188 578
	3 048 361	**2 760 680**

In-kind benefits

The Mayor/Speaker is a full-time councillor . He is provided with an office and secretarial support at the cost of the Council.

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

32. Investment revenue

Finance income

Bank	210 759	179 555

33. Depreciation and amortisation

Property, plant and equipment	284 669	16 772

34. Finance costs

Non-current borrowings	352 356	277 822
Bank	133 886	339 710
	486 242	**617 532**

35. Auditors' remuneration

Fees	1 878 889	1 136 099

36. Contracted services

Information Technology Services	841 445	228 736
Fleet Services	78 380	57 937
Specialist Services	294 323	-
Other Contractors	863 224	407 169
	2 077 372	**693 842**

37. Bulk purchases

Electricity	10 086 232	7 538 003
Water	2 771 240	7 253 378
	12 857 472	**14 791 381**

38. Cash generated from operations

Surplus	39 741 339	23 819 276
Adjustments for:		
Depreciation and amortisation	284 669	16 772
Debt impairment	11 719 645	9 173 807
Movements in retirement benefit assets and liabilities	221 000	860 955

38. Cash generated from operations (continued)

Movements in provisions	1 053 000	450 000
Changes in working capital:		
Inventories	(359 224)	127 166
Trade and other receivables from exchange transactions	(6 982 120)	(1 727 221)
Other receivables from non-exchange transactions	(522 397)	(130 702)
Consumer debtors	(12 821 823)	(7 576 508)
Trade and other payables from exchange transactions	1 005 403	12 366 738
VAT receivable / payable (Amend as appropriate)	1 463 263	(3 926 183)
Conditional grants and receipts	742 360	651 022
Consumer deposits	5 584	712
	35 550 699	**34 105 834**

39. Capital commitments

39.1 Commitments in respect of capital expenditure

Approved and contracted for		
• Infrastructure	4 199 077	3 800 206
Approved but not yet contracted for		
• Infrastructure	39 448 200	20 090 428
• Community	16 044 798	600 000
• Heritage	1 800 000	650 000
	57 292 998	**21 340 428**
This expenditure will be financed from		
• Government grants	54 292 075	15 490 634
• Own resources	5 300 000	2 150 000
• District Council grants	1 900 000	7 500 000
	61 492 075	**25 140 634**

40. Contingencies

Management can not reliably estimate the financial effect of claims due to uncertainties relating to when the cases will be resolved and management are not able to reliably determine the amounts payable. The amounts disclosed, where applicable, reflects the possible claim against the council.

There is no reimbursement from any third parties for potential obligations of the municipality.

All claims are being contested based on legal advice.

Contingent liabilities

Litigations in the process against the Council relating to civil claims include the following:

1. Claim for breach of contract plus legal costs	3 800 000	-
2. Claim for breach of contract plus legal costs	876 000	-
3. Legal costs recovering estimated costs	20 000	-
4. Legal costs re perusal of contract	2 500	-
5. Legal costs - advice re Trust	20 000	-
6. Civil claim plus legal costs - negligence re statutory duties	1 284 300	-
	6 002 800	**-**

41. Prior period errors

Statement of financial position

Investment Property	-	(659 442)
Creditors	-	(24 670 963)
Provision for retirement benefit	-	(473 987)
Opening Accumulated Surplus or Deficit	-	17 760 420

Statement of financial performance

Medical aid pensioners	-	473 987
Bulk Purchase Water	-	7 253 378
Repairs and Maintenance	-	316 607

Cash flow statement

42. Risk management

[Note: The disclosure below is illustrative and only an example. The municipality will need to update based on their policies.]

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including currency risk, interest rate risk, equity price risk and commodity price risk).

Credit risk

Credit risk is mananged on a group basis.

42. Risk management

Potential concentrations of credit rate risk consist mainly of investments, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents. 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 large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers.

Trade receivables are presented net of an allowance for impairment.

Liquidity risk

Liquidity risk is the risk that the economic entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the economic entity’s short, medium and long-term funding and cash flow requirements.

The economic entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	490 270	470 000	1 400 000	1 197 213
Trade and other payables	19 686 000	-	26 000 000	-

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	125 570	120 000	1 195 857	250 000
Trade and other payables	16 095 000	-	-	-

Market risk

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

There has been no change, since the previous financial year, to the economic entity’s exposure to market risks or the manner in which it manages and measures the risk.

The economic entity does not enter into significant foreign currency transactions and has limited exposure to foreign currency risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The economic entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates.

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

- Call deposits

42. Risk management

- Notice deposits
- Development Bank of South Africa loan

43. Going concern

We draw attention to the fact that at 30 June 2011, the economic entity had an accumulated surplus of R 203 251 516 and that the economic entity's total assets exceed its liabilities by R 203 251 516.

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

44. Events after the reporting date

No events have occured after the reporting date to which reference is necessary.

45. Unauthorised expenditure

Reconciliation of unauthorised expenditure

	2011	2010
Opening balance	33 863 487	33 863 487
Approval by Council or Condoned	(33 863 487)	-
	-	**33 863 487**

46. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

	2011	2010
Opening balance	2 067 280	1 954 187
Fruitless and wasteful expenditure - current year	159 138	113 093
Condoned or written off by Council	(1 954 187)	-
	272 231	**2 067 280**

47. Irregular expenditure

	2011	2010
Opening balance	49 171 897	40 079 763
Irregular Expenditure - current year	39 315 083	9 092 134
Amounts condoned or written off by Council	(18 459 338)	-
	70 027 642	**49 171 897**

Analysis of expenditure awaiting condonation per age classification

	2011	2010
Current year	39 315 083	-
Prior years	30 712 559	-
	70 027 642	**-**

Figures in Rand	2011	2010

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2011	2010
Current year subscription / fee	131 148	110 748
Amount paid - current year	(131 148)	(110 748)
	-	-

Audit fees

	2011	2010
Opening balance	556 778	-
Current year subscription / fee	1 878 889	1 136 098
Amount paid - current year	(2 413 124)	(579 320)
	22 543	**556 778**

No provision was made for the 2010/2011 financial period.

PAYE and UIF

	2011	2010
Current year subscription / fee	2 069 426	1 631 224
Amount paid - current year	(2 069 426)	(1 631 224)
	-	-

Additional text

Pension and Medical Aid Deductions

	2011	2010
Current year subscription / fee	3 649 562	3 346 708
Amount paid - current year	(3 649 562)	(3 346 708)
	-	-

Additional text

VAT

	2011	2010
VAT receivable	1 130 049	2 593 312

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

Councillors' arrear consumer accounts

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

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
JM Ngwenya-Sithebe	328	3 721	4 049

Figures in Rand	2011	2010

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

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M.I. Kobeni	1 620	-	1 620
J.M. Ngwenya-Sithebe	3 294	-	3 294
	4 914	**-**	**4 914**

49. Utilisation of Long-term liabilities reconciliation

	2011	2010
Long-term liabilities raised	3 557 483	1 691 428

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. Debt impairment

	2011	2010
Contributions to debt impairment provision	11 719 645	9 173 807

Notes to the Annual Financial Statements

Figures in Rand

51. Statement of comparative and actual information

2011

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	5 586 000	5 740 200		5 740 200	5 798 747		(58 547)	101 %	104 %
Service charges	19 547 300	18 775 400		18 775 400	20 261 124		(1 485 724)	108 %	104 %
Investment revenue	610 000	620 000		620 000	210 759		409 241	34 %	35 %
Transfers recognised - operational	53 306 039	48 861 039		48 861 039	51 694 063		(2 833 024)	106 %	97 %
Other own revenue	4 877 323	4 035 723		4 035 723	11 308 487		(7 272 764)	280 %	232 %
Total revenue (excluding capital transfers and contributions)	**83 926 662**	**78 032 362**		**78 032 362**	**89 273 180**		**(11 240 818)**	**114 %**	**106 %**
Employee costs	(22 907 565)	(24 149 125)	-	(24 149 125)	(22 752 924)	-	(1 396 201)	94 %	99 %
Remuneration of councillors	(3 106 100)	(3 106 100)	-	(3 106 100)	(3 048 361)	-	(57 739)	98 %	98 %
Debt impairment	(8 200 000)	(8 200 000)		(8 200 000)	(11 719 645)	-	3 519 645	143 %	143 %
Depreciation and asset impairment	(7 555 000)	(3 670 000)		(3 670 000)	(284 669)	-	(3 385 331)	8 %	4 %
Finance charges	(454 000)	(367 000)	-	(367 000)	(486 242)	-	119 242	132 %	107 %
Materials and bulk purchases	(10 524 850)	(10 575 150)	-	(10 575 150)	(12 857 472)	-	2 282 322	122 %	122 %
Transfers and grants	(5 971 532)	(3 424 332)	-	(3 424 332)	(2 833 819)	-	(590 513)	83 %	47 %
Other expenditure	(30 538 325)	(29 864 375)	-	(29 864 375)	(23 775 064)	-	(6 089 311)	80 %	78 %
Total expenditure	**(89 257 372)**	**(83 356 082)**	**-**	**(83 356 082)**	**(77 758 196)**	**-**	**(5 597 886)**	**93 %**	**87 %**
Surplus/(Deficit)	**(5 330 710)**	**(5 323 720)**		**(5 323 720)**	**11 514 984**		**(16 838 704)**	**(216)%**	**(216)%**

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-		-	28 226 355		(28 226 355)	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**(5 330 710)**	**(5 323 720)**		**(5 323 720)**	**39 741 339**		**(45 065 059)**	**(746)%**	**(746)%**
Surplus/(Deficit) for the year	**(5 330 710)**	**(5 323 720)**		**(5 323 720)**	**39 741 339**		**(45 065 059)**	**(746)%**	**(746)%**

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows									
Net cash from (used) operating	35 550 700	35 550 700		35 550 700	35 550 699		1	100 %	100 %
Net cash from (used) investing	(36 475 900)	(36 475 900)		(36 475 900)	(36 475 982)		82	100 %	100 %
Net cash from (used) financing	1 800 000	1 800 000		1 800 000	1 866 055		(66 055)	104 %	104 %
Cash/cash equivalents at the year end	**874 800**	**874 800**		**874 800**	**940 772**		**(65 972)**	**108 %**	**108 %**