Umjindi Local Municipality Economic Entity
Annual Financial Statements
for the year ended June 30, 2010

Deloitte Consulting
Issued August 31, 2010

General Information

Mayoral committee	T.R. Manyisa
Executive Mayor	R.V. Lukhele
	S.M. Zulu
Councillors	E.N. Gecelo
	D.J. Adam
	S.H. Zunguze
	M.E Nsimbini
	D.T. Chibi
	M.P. Magagula
	P.V. Mkhatshwa
	T.G. Nkambule
	P.C.W. Minnaar
	M.E. Jacobs
	M.J. Magagula
Grading of local authority	03 Medium Capacity
Accounting Officer	S.F. Mnisi Municipal Manager (013) 712 8719
Chief Finance Officer (CFO)	M.S Tlali (013) 712 8814
Business address	Cnr GENERAAL AND DE VILLIERS STR BARBERTON 1300
Postal address	UMJINDI MUNICIPALITY P.O.BOX 33 BARBERTON 1300
Bankers	FIRST NATIONAL BANK

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The reports and statements set out below comprise the consolidated 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
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated 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 consolidated annual financial statements.

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

The consolidated 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 economic entity 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 economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity 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 economic entity’s cash flow forecast for the year to June 30, 2011 and, in the light of this review and the current financial position, she is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's external auditors.

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

The consolidated annual financial statements set out on pages 4 to 60, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010.

S.F. Mnisi

Consolidated Statement of Financial Position

		Economic entity		Controlling entity	
Figures in Rand	Notes	2010	2009	2010	2009
Assets				**R**	**R**
Current Assets					
Inventories	11	2,716,570	2,391,253	2,716,570	2,391,253
Other receivables from non-exchange transactions	12	648,780	91,448	648,780	91,448
Consumer debtors	13	13,691,936	8,343,121	13,691,936	8,343,121
Current portion of long term receivables	10	-	22,113	-	22,113
Cash and cash equivalents	14	7,946,410	4,909,221	7,435,070	4,909,221
		25,003,696	**15,757,156**	**24,492,356**	**15,757,156**
Non-Current Assets					
Investment property	4	119,035,000	119,035,000	119,035,000	119,035,000
Property, plant and equipment	5	351,869,221	359,442,001	351,869,221	359,442,001
Intangible assets	6	31,878	17,618	31,878	17,618
Investments in controlled entities	7	-	-	100	100
		470,936,099	**478,494,619**	**470,936,199**	**478,494,719**
Total Assets		**495,939,795**	**494,251,775**	**495,428,555**	**494,251,875**
Liabilities					
Current Liabilities					
Other financial liabilities	18	751,319	673,900	751,319	673,900
Finance lease obligation	19	39,630	122,658	39,630	122,658
Trade and other payables from exchange transactions	22	10,495,005	6,616,940	10,495,005	6,616,940
VAT payable	23	8,417,912	7,970,083	8,417,912	7,970,083
Consumer deposits	24	2,213,131	2,000,681	2,213,131	2,000,681
Unspent conditional grants	20	10,800,309	5,234,917	10,288,970	5,234,917
Provisions	21	1,047,553	489,066	1,047,553	489,066
Bank overdraft	14	10,570,102	15,882,349	10,570,102	15,882,349
		44,334,961	**38,990,594**	**43,823,622**	**38,990,594**
Non-Current Liabilities					
Other financial liabilities	18	5,677,612	6,428,931	5,677,612	6,428,931
Finance lease obligation	19	-	34,744	-	34,744
Retirement benefit obligation	9	3,449,158	3,157,563	3,449,158	3,157,563
Provisions	21	2,796,273	1,050,000	2,796,273	1,050,000
		11,923,043	**10,671,238**	**11,923,043**	**10,671,238**
Total Liabilities		**56,258,004**	**49,661,832**	**55,746,665**	**49,661,832**
Net Assets		**439,681,791**	**444,589,943**	**439,681,890**	**444,590,043**
Net Assets					
Accumulated surplus		439,681,791	444,589,943	439,681,890	444,590,044

Consolidated Statement of Financial Performance

		Economic entity		Controlling entity	
Figures in Rand	Notes	2010	2009	2010	2009
Revenue					
Property rates	26	15,121,271	11,662,362	15,121,271	11,662,362
Service charges	27	68,730,720	55,028,318	68,730,720	55,028,318
Rental of facilities and equipment		503,442	392,949	503,442	392,949
Interest received (trading)		2,516,410	2,317,872	2,516,410	2,317,872
Fines		101,386	153,617	101,386	153,617
Licences and permits		2,144,612	2,066,932	2,144,612	2,066,932
Government grants & subsidies	28	52,595,993	32,054,973	52,307,332	32,054,973
Other income		2,814,378	4,095,800	2,814,378	4,095,800
Interest received - investment	33	689,702	399,001	659,325	399,001
Total Revenue		**145,217,914**	**108,171,824**	**144,898,876**	**108,171,824**
Expenditure					
Personnel	30	(44,008,646)	(43,750,188)	(43,942,271)	(43,750,188)
Remuneration of councillors	31	(3,648,442)	(3,659,655)	(3,648,442)	(3,659,655)
Depreciation and amortisation	34	(29,690,672)	(29,631,353)	(29,690,672)	(29,631,353)
Impairment loss stock write down	35	(100,245)	-	(100,245)	-
Finance costs	36	(852,322)	(1,037,298)	(852,322)	(1,037,298)
Debt impairment	32	(7,286,616)	(3,499,992)	(7,286,616)	(3,499,992)
Repairs and maintenance		(3,405,208)	(5,427,683)	(3,405,208)	(5,427,683)
Bulk purchases	38	(28,065,406)	(20,411,765)	(28,065,406)	(20,411,765)
Grants and subsidies paid	37	(14,285)	(10,815)	(14,285)	(283,175)
General Expenses	29	(34,966,379)	(6,732,388)	(34,441,356)	(6,732,388)
Total Expenditure		**(152,038,221)**	**(114,161,137)**	**(151,446,823)**	**(114,433,497)**
Deficit for the year		**(6,820,307)**	**(5,989,313)**	**(6,547,947)**	**(6,261,673)**

Consolidated Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Economic entity			
Opening balance as previously reported	-	99,032,859	99,032,859
Adjustments			
Prior year adjustments	-	357,656,036	357,656,036
Balance at July 01, 2008	**-**	**456,688,895**	**456,688,895**
Changes in net assets			
Prior year adjustment	-	(5,837,278)	(5,837,278)
Adjustment of Grants paid to entity to surplus	-	(272,361)	(272,361)
Net income (expenses) recognised directly in net assets	-	(6,109,639)	(6,109,639)
Surplus for the year	-	(5,989,313)	(5,989,313)
Total recognised income and expenses for the year	-	(12,098,952)	(12,098,952)
Total changes	-	(12,098,952)	(12,098,952)
Opening balance as previously reported	-	423,413,552	423,413,552
Adjustments			
Prior year adjustments	-	21,241,639	21,241,639
Balance at July 01, 2009 as restated	**-**	**444,655,191**	**444,655,191**
Changes in net assets			
Undefined correction	-	1,247,868	1,247,868
Movement in internal insurance reserve	-	326,678	326,678
Intercompany transaction 09	-	272,361	272,361
Net income (expenses) recognised directly in net assets	-	1,846,907	1,846,907
Surplus for the year	-	(6,820,307)	(6,820,307)
Total recognised income and expenses for the year	-	(4,973,400)	(4,973,400)
Total changes	-	(4,973,400)	(4,973,400)
Balance at June 30, 2010	**-**	**439,681,791**	**439,681,791**
Note(s)	15		
Controlling entity			
Opening balance as previously 2008	-	99,032,959	99,032,959
Adjustments			
Prior year adjustments	-	357,656,036	357,656,036

Consolidated Statement of Changes in Net Assets

Figures in Rand	Share capital / contributions from owners	Accumulated surplus	Total equity
Balance at 01 July 2008 as restated	**-**	**456,688,995**	**456,688,995**
Changes in net assets			
Prior year adjustment	-	(5,837,278)	(5,837,278)
Net income (expenses) recognised directly in net assets	-	(5,837,278)	(5,837,278)
Surplus for the year	-	(6,261,673)	(6,261,673)
Total recognised income and expenses for the year	-	(12,098,951)	(12,098,951)
Total changes	-	(12,098,951)	(12,098,951)
Opening balance as previously reported	-	423,413,652	423,413,652
Adjustments			
Prior year adjustments	-	21,241,639	21,241,639
Balance at July 01, 2009 as restated	**-**	**444,655,291**	**444,655,291**
Changes in net assets			
Undefined correction	-	1,247,868	1,247,868
Movement in internal insurance reserve	-	326,678	326,678
Net income (expenses) recognised directly in net assets	-	1,574,546	1,574,546
Surplus for the year	-	(6,547,947)	(6,547,947)
Debit notes	-	(4,973,401)	(4,973,401)
Total changes	-	(4,973,401)	(4,973,401)
Balance at June 30, 2010	**-**	**439,681,890**	**439,681,890**
Note(s)	15		

Consolidated Cash Flow Statement

		Economic entity		Controlling entity	
Figures in Rand	Notes	2010	2009	2010	2009
Cash flows from operating activities					
Receipts					
Sale of goods and services		76,223,046	70,384,572	76,223,046	70,384,572
Grants		58,161,385	22,998,110	57,361,385	22,998,110
Interest received from Debtors		2,516,410	2,317,872	2,516,410	2,317,872
		136,900,841	95,700,554	136,100,841	95,700,554
Payments					
Employee costs		(47,657,088)	(47,409,843)	(47,590,713)	(47,409,843)
Suppliers		(59,742,141)	(28,993,909)	(59,217,118)	(28,993,909)
		(107,399,229)	(76,403,752)	(106,807,831)	(76,403,752)
Net cash flows from operating activities	39	**29,501,612**	**19,296,802**	**29,293,010**	**19,296,802**
Cash flows from investing activities					
Purchase of property, plant and equipment	5	(22,113,852)	(23,183,615)	(22,113,852)	(23,183,615)
Purchase of other intangible assets	6	(18,300)	(19,366)	(18,300)	(19,366)
Proceeds from sale of long term receivables		22,113	81,729	22,113	81,729
Interest Income		689,702	399,001	659,325	399,001
Net cash flows from investing activities		**(21,420,337)**	**(22,722,251)**	**(21,450,714)**	**(22,722,251)**
Cash flows from financing activities					
Repayment of other financial liabilities		(673,900)	-	(673,900)	-
Repayment of financial liabilities		-	(669,791)	-	(669,791)
Finance lease payments		(117,772)	(195,481)	(117,772)	(195,481)
Transactions posted directly in surplus		1,846,907	(5,837,273)	1,574,546	(5,837,273)
Prior year adjustments		65,248	(2,773,375)	65,248	(2,773,375)
Finance costs		(852,322)	(1,037,298)	(852,322)	(1,037,298)
Net cash flows from financing activities		**268,161**	**(10,513,218)**	**(4,200)**	**(10,513,218)**
Net increase/(decrease) in cash and cash equivalents		**8,349,436**	**(13,938,667)**	**7,838,096**	**(13,938,667)**
Cash and cash equivalents at the beginning of the year		(10,973,128)	2,965,539	(10,973,128)	2,965,539
Cash and cash equivalents at the end of the year	14	**(2,623,692)**	**(10,973,128)**	**(3,135,032)**	**(10,973,128)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

These accounting policies are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the Accounting Standards Board, are summarised as follows:

Standard Title of Accounting standard:
GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associate
GRAP 8 Interest in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events after the reporting date
GRAP 16 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-current Assets held for Sale and Discontinued Operations
GRAP 101 Agriculture
GRAP 102 Intangible Assets
IFRS 3 (AC 140) Business Combinations
IFRS 4 (AC 141) Insurance Contracts
IFRS 6 (AC 143) Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144) Financial Instruments: Disclosures
IAS 12 (AC 102) Income Taxes
IAS 19 (AC 116) Employee Benefits
IAS 32 (AC 125) Financial Instruments: Presentation
IAS 36 (AC 128) Impairment of Assets
IAS 39 (AC 133) Financial Instruments: Recognition and Measurement
IPSAS 20 Related Party Disclosure
IPSAS 21 Impairment of Non-Cash Generating Assets
IFRIC 4 Determining whether an Arrangement contains a Lease
IFRIC 14 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 1 Applying the Probability Test on Initial Recognition of Exchange Revenue

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, as detailed above, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5, as issued by the Accounting Standards Board.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the

1.1 Significant judgements and sources of estimation uncertainty (continued)

amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The economic entity uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. 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 interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the statement of financial position date.

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors.

The municipality has not done a test for impairment in the current financial year. The testing process will begin in the new financial year and be completed by 30 June 2011.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

Payments to defined contribution retirement benefit plans are charged to the Statement of Financial Performance as they fall due. Payments made to industry managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations will be performed on a regular basis on defined benefits contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

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 the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for anywhere between 30% and 50% of the medical aid membership fee, and the Council for the remaining 50% to 70%. The amount varies from person to person. The medical aid contributions are charged to the Statement of Financial Performance as they fall due. The additional cost effect of defined benefit retirement funds is immaterial and the costs thereof are charged to the Statement of Financial Performance as they fall due. The Municipality's net obligation in respect of post retirement plans are 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 whereby that benefit is discounted to determine its present value.

Effective interest rate

The economic entity used the prime interest rate to discount future cash flows.

1.2 Investment property

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

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

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

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

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.
Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.
Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.
If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value. Fair value is determined by using the last available general valuation roll or market related valuations.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.
If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete

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.

Transitional provision

1.2 Investment property (continued)

The economic entity changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on Thursday, June 30, 2011.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the economic entity need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the costs. The cost also includes the necessary costs of dismantling and removing the asset and restoring the asset on the site on which it is located.

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

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

SUBSEQUENT MEASUREMENT - COST MODEL: Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.
The annual depreciation rates are based on the estimated average asset lives.

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the

Accounting Policies

1.3 Property, plant and equipment (continued)

obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

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

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

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value.

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

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

Item	**Average useful life**
Land	Undefined
Buildings	30
Plant and machinery	5 - 15
Furniture and fixtures	7 - 10
Motor vehicles	5 - 20
Office equipment	3 - 5
Infrastructure	
• Roads and Paving	10 - 15
• Electricity	10 - 30
• Water	15 - 20
• Sewerage	15 - 20
Community	
• Buildings	30
• Recreational Facilities	20
• Parks and gardens	15 - 20
Other property, plant and equipment	3 - 7
Other equipment	5
Landfill site	30 - 50

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

Assets which the economic entity 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.

Transitional provision

The economic entity changed its accounting policy for property, plant and equipment in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on Thursday, June 30, 2011.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Property, plant and equipment are initially recognised at cost.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no

1.4 Intangible assets (continued)

foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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

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

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

Item	**Useful life**
Computer software, other	3 years

Transitional provision

The economic entity changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on Thursday, June 30, 2011.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.5 Investments in controlled entities

Controlling entity annual financial statements

In the municipality’s separate annual financial statements, investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the subsidiary.

1.6 Financial instruments

Classification

The economic entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

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

1.6 Financial instruments (continued)

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Fair value determination

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

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

1.6 Financial instruments (continued)

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

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

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

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

1.6 Financial instruments (continued)
Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the economic entity 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.

Derecognition

Financial assets

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

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

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

Financial liabilities

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

1.7 Leases

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

Finance leases – lessee

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

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

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance

1.7 Leases (continued)
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.

Operating leases - lessor

Operating lease income is recognised as an income on another systematic basis. The income from operating leases is calculated at a fixed percentage of the employees' income per month.

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

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

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

1.8 Inventories

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

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

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

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

Current replacement costs are the cost the municipality incurs to acquire the asset on the reporting date.
The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The economic entity changed its accounting policy for inventories in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on Thursday, June 30, 2011.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),

1.8 Inventories (continued)

- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

The economic 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 economic entity estimates the recoverable amount of the asset.

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the economic entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the

1.9 Impairment of cash-generating assets (continued)

asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)
is justified.

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

Value in use

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.11 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.12 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the economic entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise

1.12 Employee benefits (continued)
amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

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. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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 reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The economic entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

1.13 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

1.13 Provisions and contingencies (continued)

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Transitional provision

The economic entity changed its accounting policy for provisions, contingent liabilities and contingent assets in 2009. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.14 Revenue from exchange transactions

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

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

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

Measurement

1.14 Revenue from exchange transactions (continued)

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.15 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

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

Fines

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

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

Levies

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

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

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

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

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

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

1.16 Investment income

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

1.17 Borrowing costs

1.17 Borrowing costs (continued)

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 9 months.

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

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

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of Municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular

1.21 Irregular expenditure (continued)

expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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

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

1.22 Use of Estimates

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

1.23 Presentation of Currency

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

1.24 Offsetting

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

1.25 Internal Reserves

Self insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (excess payments). Premiums are charged to the respective services taking into account claims history and replacement values of the insured assets. The balance of the self-insurance fund is ringfenced within the accumulated surplus/(deficit).

The Council determines annually to contribute between 0.1% and 0.5% of the previous year's own income to the Self Insurance Reserve.

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

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

The balance of the self-insurance fund is not fully cash backed. Internal reserves are ringfenced within accumulated surplus.

1.26 Investments

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

1.27 Conditional Grants and receipts

Accounting Policies

1.27 Conditional Grants and receipts (continued)

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

1.28 Segmental information

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

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

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year, except for the following standards and interpretations that were adopted in the current year.

GRAP 16 - Investment Property

During the year, the economic entity changed its accounting policy with respect to the treatment of Investment Property. In order to conform with the benchmark treatment in GRAP16 - Investment Properties. The economic entity now finalised the identification of investment properties and recognised these assets at provisional amounts.

The change in accounting policy is made in accordance with its transitional provisions in Directive 4.

GRAP 102 - Intangible Assets

During the year, the economic entity changed its accounting policy with respect to the treatment of Intangible Assets. In order to conform with the benchmark treatment in GRAP102 – Intangible Assets. The economic entity now finalised the identification of intangible assets and recognised these assets at provisional amounts.

The change in accounting policy is made in accordance with its transitional provisions in Directive 4.

Statement of financial position

Investment Properties				
Take-on of investment properties not previously recognised	119,035,000	119,035,000	119,035,000	119,035,000
Intangible Assets				
Take-on of intangible assets not previously recognised	43,690	25,390	43,690	25,390

3. New standards and interpretations

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.

A economic entity 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.

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

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

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

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

The economic entity expects to adopt the standard for the first time in the 2011 annual financial statements.

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

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by a economic entity 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, a economic entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, a economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a economic entity applies the appropriate discount rate to those future cash flows.

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

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

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

3. New standards and interpretations (continued)

that could be achieved in arm's length transactions in estimating:

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

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

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

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

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

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

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

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

The economic entity expects to adopt the standard for the first time in the 2011 annual financial statements.

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

3.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after July 01, 2010 or later periods:

GRAP 18: Segment Reporting

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

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

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

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

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

3. New standards and interpretations (continued)

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

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

GRAP 23: Revenue from Non-exchange Transactions

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

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

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

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

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

The economic entity expects to adopt the standard for the first time in the 2011 annual financial statements.

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

GRAP 24: Presentation of Budget Information in the Financial Statements

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

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

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

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

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

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

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

The economic entity expects to adopt the standard for the first time in the 2011 annual financial statements.

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

3. New standards and interpretations (continued)

GRAP 103: Heritage Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net

3. New standards and interpretations (continued)

disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

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

The economic entity expects to adopt the standard for the first time in the 2011 annual financial statements.

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

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

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

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

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

The economic entity expects to adopt the interpretation for the first time in the 2011 annual financial statements.

It is unlikely that the interpretation will have a material impact on the economic entity's annual financial statements.

4. Investment property

Group	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	119,035,000	-	119,035,000	119,035,000	-	119,035,000

Company	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	119,035,000	-	119,035,000	119,035,000	-	119,035,000

During the financial year the municipality identified and provisionally measured investment properties in terms of GRAP 16.

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

The provisional value of the above properties is R 119 035 000 (2009 : R 119 035 000). Investment properties have been valued in accordance with the new municipal valuation roll which became effective on 1 July 2008 and has been adjusted to take into account current market conditions.

Retrospective application of the effects of GRAP 16 implementation:

- The implementation of GRAP 16 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. Provisional retrospective application corrections were done in the 2010 financial year.

5. Property, plant and equipment

Group	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	23,489,059	-	23,489,059	23,489,059	-	23,489,059
Buildings	27,538,377	(8,222,040)	19,316,337	27,538,377	(7,304,935)	20,233,442
Office equipment	810,910	(785,968)	24,942	810,910	(697,544)	113,366
Infrastructure	708,653,999	(458,289,123)	250,364,876	706,333,916	(435,558,959)	270,774,957
Community	30,114,121	(14,939,884)	15,174,237	28,920,995	(13,949,258)	14,971,737
Other property, plant and equipment	33,526,759	(26,372,089)	7,154,670	33,054,052	(21,551,590)	11,502,462
Capital work in progress	33,159,133	-	33,159,133	16,777,470	-	16,777,470
Heritage	529,508	-	529,508	529,508	-	529,508
Landfill Site	2,796,273	(139,814)	2,656,459	1,050,000	-	1,050,000
Total	**860,618,139**	**(508,748,918)**	**351,869,221**	**838,504,287**	**(479,062,286)**	**359,442,001**

Controlling entity	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	23,489,059	-	23,489,059	23,489,059	-	23,489,059
Buildings	27,538,377	(8,222,040)	19,316,337	27,538,377	(7,304,935)	20,233,442
Leased Assets	810,910	(785,968)	24,942	810,910	(697,544)	113,366
Infrastructure	708,653,999	(458,289,123)	250,364,876	706,333,916	(435,558,959)	270,774,957
Community	30,114,121	(14,939,884)	15,174,237	28,920,995	(13,949,258)	14,971,737
Other property, plant and equipment	33,526,759	(26,372,089)	7,154,670	33,054,052	(21,551,590)	11,502,462

5. Property, plant and equipment (continued)

Capital work in progress	33,159,133	-	33,159,133	16,777,470	-	16,777,470
Heritage	529,508	-	529,508	529,508	-	529,508
Landfill site	2,796,273	(139,814)	2,656,459	1,050,000	-	1,050,000
Total	**860,618,139**	**(508,748,918)**	**351,869,221**	**838,504,287**	**(479,062,286)**	**359,442,001**

Reconciliation of property, plant and equipment - Economic entity - 2010

	Opening Balance	Additions	Depreciation	Total
Land	23,489,059	-	-	23,489,059
Buildings	20,233,442	-	(917,105)	19,316,337
Leased Assets	113,366	-	(88,424)	24,942
Infrastructure	270,774,957	2,320,083	(22,730,164)	250,364,876
Community	14,971,737	1,193,126	(990,626)	15,174,237
Other property, plant and equipment	11,502,462	472,707	(4,820,499)	7,154,670
Capital work in progress	16,777,470	16,381,663	-	33,159,133
Heritage	529,508	-	-	529,508
Other property, plant and equipment # 4	1,050,000	1,746,273	(139,814)	2,656,459
	359,442,001	**22,113,852**	**(29,686,632)**	**351,869,221**

Reconciliation of property, plant and equipment - Economic entity - 2009

	Opening Balance	Additions	Depreciation	Total
Land	23,489,059	-	-	23,489,059
Buildings	21,149,746	-	(916,304)	20,233,442
Office equipment	267,307	-	(153,941)	113,366
Infrastructure	290,788,331	2,807,310	(22,820,684)	270,774,957
Community	15,962,170	-	(990,433)	14,971,737
Other property, plant and equipment	10,928,241	3,598,835	(3,024,614)	11,502,462
Capital work in progress	-	16,777,470	-	16,777,470
Heritage	529,508	-	-	529,508
Landfill Site	1,050,000	-	-	1,050,000
	364,164,362	**23,183,615**	**(27,905,976)**	**359,442,001**

Other information

During the previous financial year the municipality implemented a process to complete the identification, recording, valuing and managing infrastructure assets as required in terms of GRAP 17. The identification and recording process was completed in the current financial year and resulted in a reconstructed fixed asset register for infrastructure assets. The valuation process is still being finalised and assets are recognised at provisional amounts in the FAR. The key issues in this regard were as follows:
Physical verification:
- All the infrastructure assets have been physically verified during the year by specialists. During this process the asset location, condition and maintenance history was recorded and evaluated.
- The valuation process by an independent valuer is in process and will be finalised and effective on 30 June 2011.
- Due to the specialised nature of the assets, and market availability of information, the Depreciated Replacement Cost method is used.
- A verification and condition assessment was done except for certain underground assets due to the nature of the assets and the fact that the assets are underground.
- In the case of inaccessible assets various methods were employed to record and value the assets. These assets are reflected in the asset register as "polygon assets". A polygon asset is an asset that is referenced by a geographically referenced area and the actual position and detail of the asset estimated within this geographical area.
- As the assets are maintained or a process implemented to more accurately record these assets the polygon can be broken down into detailed components.

Retrospective application of the effects of implementation of GRAP 17
- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

5. Property, plant and equipment (continued)

be applied retrospectively. The methodology that will be followed for the retrospective application will be as follows:
Disclosure of the asset information
- The deemed cost will be determined by 30 June 2011 by using the depreciated replacement values (DRC).
- The provisional opening values of the assets as well as the provisional accumulated depreciation will be restated. This adjustment will be made directly to accumulated surplus.
- Depreciation for the year has been based on the provisional asset values and is calculated on the straight line method.
- During the financial year the municipality also identified and provisionally measured investment properties in terms of GRAP 16.

Moveable Assets
During the current financial year the municipality implemented a process to identify, record and provisionally value movable assets as required in terms of GRAP 17. This resulted in a reconstructed fixed asset register for movable assets. The key issues in this regard were as follows:
Physical verification and provisional valuation
- All the movable assets have been physically verified during the year. During this process the asset location, condition, description and custodian was recorded and evaluated.

A verification and condition assessment was done.
Retrospective application of the effects of GRAP 17 implementation
- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. The methodology followed for the retrospective application corrections was done as follows:

Disclosure of the asset information
- Actual values were used where supporting information was available. For the remaining assets the DRC methodology was followed to determine deemed costs of these assets.
- Actual values were used where supporting information was available. For the remaining assets the DRC methodology was followed to determine accumulated surplus.
- Depreciation for the year has been based on the new asset values and is calculated on the straight line method.

Heritage Assets
During the current financial year the municipality implemented a process to identify, record and value Heritage assets as required in terms of GRAP 17. This resulted in a reconstructed fixed asset register for Heritage assets. The key issues in this regard were as follows:
Physical verification and provisional valuation
- All the heritage assets have been physically verified during the year. During this process the asset location, condition, description and custodian was recorded and evaluated.

A verification and condition assessment was done.
Retrospective application of the effects of GRAP 17 implementation
- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. The methodology followed for the retrospective application corrections was done as follows:

Disclosure of the asset information
Actual values were used where supporting information was available. For the remaining assets an expert valuer was used to determine the provisional values. The values of the heritage assets for certain assets where no replacement values could be obtain and therefore the municipality measured these assets at one rand as there are no external market for these assets.
- The opening for the take on values of the assets is restated. This adjustment is made directly to accumulated surplus.

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

6. Intangible assets

Group	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software, other	43,690	(11,812)	31,878	25,390	(7,772)	17,618

Company	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software, other	43,690	(11,812)	31,878	25,390	(7,772)	17,618

6. Intangible assets (continued)

Reconciliation of intangible assets - Economic entity - 2010

	Opening Balance	Additions	Amortisation	Total
Computer software, other	17,618	18,300	(4,040)	31,878

Reconciliation of intangible assets - Economic entity - 2009

	Opening Balance	Additions	Amortisation	Total
Computer software, other	258	19,366	(2,006)	17,618

Reconciliation of intangible assets - Controlling entity - 2010

	Opening Balance	Additions	Amortisation	Total
Computer software, other	17,618	18,300	(4,040)	31,878

Reconciliation of intangible assets - Controlling entity - 2009

	Opening Balance	Additions	Amortisation	Total
Computer software, other	258	19,366	(2,006)	17,618

Other information

During the current financial year the municipality implemented a process to identify, record and provisionally value intangible assets as required in terms of GRAP 102. This resulted in a reconstructed fixed asset register for Intangible assets. The key issues in this regard were as follows:

Physical verification and provisional valuation:

- All the intangible assets have been verified during the year. During this process the asset location and description was recorded and evaluated.

Retrospective application of the effects of GRAP 102 implementation:

- The implementation of GRAP 102 is a change in accounting policy. In terms of GRAP 3 changes in accounting policies should be applied retrospectively. The methodology followed for the retrospective application corrections was done as follows:

Disclosure of the asset information

- Provisional values were used to determine the cost of these assets.

- The opening for the take on provisional values of the assets as well as for provisional accumulated amortisation is restated. This adjustment is made directly to accumulated surplus.

- Provisional amortisation for the year has been based on the provisional asset values and is calculated on the straight line method.

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

7. Investments in controlled entities

Name of company	Held by	% holding 2010	% holding 2009	Carrying amount 2010	Carrying amount 2009
Umjindi Local Economic Development Agency (Pty) Ltd	Umjindi Local Municipality	100.00 %	100.00 %	100	100

The carrying amounts of subsidiaries are shown net of impairment losses.

8. Financial assets by category

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

Controlling entity - 2010

	Loans and receivables	Total
Trade and other receivables	13,691,936	13,691,936
Cash and cash equivalents	(3,135,032)	(3,135,032)
	10,556,904	**10,556,904**

Controlling entity - 2009

	Loans and receivables	Total
Trade and other receivables	8,343,121	8,343,121
Cash and cash equivalents	(10,973,128)	(10,973,128)
Long term receivables	22,113	22,113
	(2,607,894)	**(2,607,894)**

9. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

The calculation for post retirement medical aid plan was not done by an actuary as per the requirements of IAS 19, however the municipality has recently appointed actuaries to perform an actuarial valuation. This valuation was not available at time of completion of the financial statements but will be included in the new financial year and the adjustments will be done in terms of GRAP 3.

The current calculation is based on the current year service cost discounted at 10% over a 20 year period.

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(3,449,158)	(3,157,563)	(3,449,158)	(3,157,563)

Defined contribution plan

All Councillors and employees belong to 5 defined contribution retirement funds administered by the Provincial Pension Fund. These funds are subject to a triennial actuarial valuation. These valuations indicate that the funds are in a sound position.

The economic entity is under no obligation to cover any unfunded benefits.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

10. Long Term Receivables

Car Loans				22 113
TOTAL				**22 113**
Less: Current Portion				
Car Loans				22 113
TOTAL				**22 113**
Long Term Receivables				0

11. Inventories

Water	486,468	583,639	486,468	583,639
Stores, materials and fuels	2,230,102	1,807,614	2,230,102	1,807,614
	2,716,570	**2,391,253**	**2,716,570**	**2,391,253**

During the financial year an amount of R 100 245 was written off as obsolete and damaged stock.

12. Other receivables from non-exchange transactions

Overspent Government subsidies	543,012	-	543,012	-
Attorney Lemmer & Kie	-	237	-	237
Other debtors	1,643	-	1,643	-
Theft of cash by employee	25,427	-	25,427	-
New Service Connections	71,383	91,211	71,383	91,211
Underbanked cash	7,315	-	7,315	-
	648,780	**91,448**	**648,780**	**91,448**

Other receivables from non-exchange transactions pledged as security

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 re-negotiated in the last year.

Fair value of other receivables from non-exchange transactions

Other receivables from non-exchange transactions	-	237	-	237

The fair value was determined by accepting the face value of the outstanding balances.

13. Trade and other receivables from exchange transactions

Gross balances				
Rates	6,532,146	4,153,217	6,532,146	4,153,217
Electricity	4,663,543	2,284,640	4,663,543	2,284,640
Water	6,859,861	4,339,938	6,859,861	4,339,938
Sewerage	3,000,334	2,088,436	3,000,334	2,088,436
Refuse	3,827,396	2,843,173	3,827,396	2,843,173
Housing rental	3,161	799	3,161	799
Other	16,810,012	13,401,576	16,810,012	13,401,576
	41,696,453	**29,111,779**	**41,696,453**	**29,111,779**
Less: Provision for bad debts				
Rates	(4,188,175)	(2,962,949)	(4,188,175)	(2,962,949)
Electricity	(1,616,248)	(1,629,887)	(1,616,248)	(1,629,887)
Water	(3,973,234)	(3,096,159)	(3,973,234)	(3,096,159)

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

13. Trade and other receivables from exchange transactions (continued)

Sewerage	(2,124,978)	(1,489,913)	(2,124,978)	(1,489,913)
Refuse	(2,786,040)	(2,028,350)	(2,786,040)	(2,028,350)
Other	(13,315,842)	(9,561,400)	(13,315,842)	(9,561,400)
	(28,004,517)	**(20,768,658)**	**(28,004,517)**	**(20,768,658)**

Net balance

Rates	2,343,971	1,190,268	2,343,971	1,190,268
Electricity	3,047,295	654,753	3,047,295	654,753
Water	2,886,627	1,243,779	2,886,627	1,243,779
Sewerage	875,356	598,523	875,356	598,523
Refuse	1,041,356	814,823	1,041,356	814,823
Housing rental	3,161	799	3,161	799
Other	3,494,170	3,840,176	3,494,170	3,840,176
	13,691,936	**8,343,121**	**13,691,936**	**8,343,121**

Rates

Current (0 -30 days)	1,119,587	245,153	1,119,587	245,153
31 - 60 days	435,878	74,830	435,878	74,830
61 - 90 days	311,513	54,090	311,513	54,090
91 - 120 days	138,589	48,392	138,589	48,392
121 - 365 days	338,404	46,130	338,404	46,130
> 365 days	-	721,673	-	721,673
	2,343,971	**1,190,268**	**2,343,971**	**1,190,268**

Electricity

Current (0 -30 days)	1,765,459	424,142	1,765,459	424,142
31 - 60 days	584,171	54,271	584,171	54,271
61 - 90 days	337,214	19,838	337,214	19,838
91 - 120 days	144,032	11,856	144,032	11,856
121 - 365 days	216,419	9,186	216,419	9,186
> 365 days	-	135,460	-	135,460
	3,047,295	**654,753**	**3,047,295**	**654,753**

Water

Current (0 -30 days)	1,045,008	332,320	1,045,008	332,320
31 - 60 days	866,923	111,206	866,923	111,206
61 - 90 days	537,584	74,604	537,584	74,604
91 - 120 days	130,233	63,686	130,233	63,686
121 - 365 days	306,879	56,399	306,879	56,399
> 365 days	-	605,564	-	605,564
	2,886,627	**1,243,779**	**2,886,627**	**1,243,779**

Sewerage

Current (0 -30 days)	322,171	79,766	322,171	79,766
31 - 60 days	179,953	33,151	179,953	33,151
61 - 90 days	142,602	27,641	142,602	27,641
91 - 120 days	64,212	24,015	64,212	24,015
121 - 365 days	166,418	22,105	166,418	22,105
> 365 days	-	411,845	-	411,845
	875,356	**598,523**	**875,356**	**598,523**

Refuse

Current (0 -30 days)	398,032	101,402	398,032	101,402

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

13. Trade and other receivables from exchange transactions (continued)

31 - 60 days	201,796	44,120	201,796	44,120
61 - 90 days	158,960	36,786	158,960	36,786
91 - 120 days	75,297	32,332	75,297	32,332
121 - 365 days	207,271	29,856	207,271	29,856
> 365 days	-	570,327	-	570,327
	1,041,356	**814,823**	**1,041,356**	**814,823**

Housing rental

Current (0 -30 days)	878	-	878	-
31 - 60 days	2,243	-	2,243	-
121 - 365 days	40	-	40	-
> 365 days	-	799	-	799
	3,161	**799**	**3,161**	**799**

Other (specify)

Current (0 -30 days)	269,584	74,418	269,584	74,418
31 - 60 days	603,469	175,877	603,469	175,877
61 - 90 days	1,514,113	133,087	1,514,113	133,087
91 - 120 days	257,720	109,801	257,720	109,801
121 - 365 days	849,284	110,826	849,284	110,826
> 365 days	-	3,236,167	-	3,236,167
	3,494,170	**3,840,176**	**3,494,170**	**3,840,176**

Net debtors

Balance at end of the year	13,691,936	8,343,121	13,691,936	8,343,121

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

Fair value of consumer debtors

Consumer debtors	13,641,108	8,343,121	13,641,108	8,343,121

The fair value of consumer debtors was determined by accepting the face value of the outstanding capital.

Consumer debtors impaired

As of June 30, 2010, consumer debtors of 7 235 859 (2009: 3,499,992) were impaired and provided for.

The amount of the provision was 28,004,517 as of June 30, 2010 (2009: 20,768,658).

The ageing of these loans is as follows:

3 to 6 months	30,590,025	27,854,578	30,590,025	27,854,578

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	512,232	13,570	12,055	13,570
Bank balances	11,163	-	-	-
Short-term deposits	7,423,015	4,895,651	7,423,015	4,895,651
Bank overdraft	(10,570,102)	(15,882,349)	(10,570,102)	(15,882,349)
	(2,623,692)	**(10,973,128)**	**(3,135,032)**	**(10,973,128)**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

14. Cash and cash equivalents (continued)

Current assets	7,946,410	4,909,221	7,435,070	4,909,221
Current liabilities	(10,570,102)	(15,882,349)	(10,570,102)	(15,882,349)
	(2,623,692)	**(10,973,128)**	**(3,135,032)**	**(10,973,128)**

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 municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2010	June 30, 2009	June 30, 2008
First National Bank - Barberton Branch (270152) Account Number (51600026441)	742,031	334,571	5,395,161	(10,570,102)	(15,882,349)	(1,722,672)
Absa BANK - Call Account - Nelspruit Branch 407 085 2360	12,516	-	-	12,516	-	-
First National Bank - Business Money Market Account - Account Number (62271408926)	100,000	-	-	100,000	-	-
First National Bank - Barberton Branch (270152)- Account Number (62199275647)	7,310,498	-	-	7,310,498	-	-
Total	**8,165,045**	**334,571**	**5,395,161**	**(3,147,088)**	**(15,882,349)**	**(1,722,672)**

15. Share capital / contributions from owners

16. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - Economic entity - 2010

	Insurance reserve	Total
Opening balance	2,441,997	2,441,997
Excess payable on insurance claims	141,490	141,490
Lion of Africa and Pezulu payments	185,188	185,188
	2,768,675	**2,768,675**

Ring-fenced internal funds and reserves within accumulated surplus - Economic entity - 2009

	Insurance reserve	Total
Opening balance	2,441,997	2,441,997

Ring-fenced internal funds and reserves within accumulated surplus - Controlling entity - 2010

	Insurance reserve	Total
Opening balance	2,441,997	2,441,997
Excess payable on insurance claims	141,490	141,490
Lion of Africa and Pezulu payments	185,188	185,188

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

16. Accumulated surplus (continued)

	2,768,675	**2,768,675**

Ring-fenced internal funds and reserves within accumulated surplus - Controlling entity - 2009

	Insurance reserve	Total
Opening balance	2,441,997	2,441,997

17. Internal Insurance reserve

Opening Balance	2,441,997	2,441,997	2,441,997	2,441,997
Net movement in reserve	326,678	-	326,678	-
Transferred to Accumulated Surplus	(2,768,675)	(2,441,997)	(2,768,675)	(2,441,997)
	-	-	-	-

18. Other financial liabilities

Held at amortised cost				
Current portion of DBSA loans These loans bear interest at various rates and are repayable in the next 12 months.	751,319	673,900	751,319	673,900
DBSA Vehicle Fleet Management This loan bears interest at 8,94% and is repayable on 30 September 2011.	77,922	223,913	77,922	223,913
DBSA Loan 1996/7 This loan bears interest at 14,5% and is repayable on 31 March 2018.	1,329,743	1,434,311	1,329,743	1,434,311
DBSA Infrastructure 13279/1 This loan bears interest at 15% and is repayable on 31 March 2019.	1,076,842	1,143,494	1,076,842	1,143,494
DBSA Infrastructure 13356 B This loan bears interest at 16,5% and is repayable on 30 September 2019.	741,697	779,993	741,697	779,993
DBSA Loan Elec Ext 13 This loan bears interest at 10,81% and is repayable on 31 March 2015.	1,159,030	1,380,344	1,159,030	1,380,344
DBSA Elec Loan Rural Electrification This loan bears interest at 9,08% and is repayable on 30 September 2016.	1,292,378	1,466,876	1,292,378	1,466,876
	6,428,931	**7,102,831**	**6,428,931**	**7,102,831**

The fair values of the financial liabilities were determined by accepting the face values of outstanding capital.

Non-current liabilities				
At amortised cost	5,677,612	6,428,931	5,677,612	6,428,931
Current liabilities				
At amortised cost	751,319	673,900	751,319	673,900
	6,428,931	**7,102,831**	**6,428,931**	**7,102,831**

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

19. Finance lease obligation

Minimum lease payments due				
- within one year	40,707	132,038	40,707	132,038
- in second to fifth year inclusive	-	35,660	-	35,660
	40,707	167,698	40,707	167,698
less: future finance charges	-	-	(1,077)	(10,296)
Present value of minimum lease payments	**40,707**	**167,698**	**39,630**	**157,402**
Present value of minimum lease payments due				
- within one year	39,630	122,658	39,630	122,658
- in second to fifth year inclusive	-	34,744	-	34,744
	39,630	**157,402**	**39,630**	**157,402**
Non-current liabilities	-	34,744	-	34,744
Current liabilities	39,630	122,658	39,630	122,658
	39,630	**157,402**	**39,630**	**157,402**

It is economic entity policy to lease certain office equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 10% (2009: 11%).

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

The economic entity's obligations under finance leases are secured by the lessor's charge over the leased assets.

20. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts				
MIG Grant	5,669,769	2,321,078	5,669,769	2,321,078
Finance Management Grant (FMG)	-	789,296	-	789,296
DME	-	1,785,695	-	1,785,695
PHP Housing Project	422,406	338,848	422,406	338,848
Disaster Management Grant	4,181,514	-	4,181,514	-
World Heritage Grant	15,281	-	15,281	-
IDC	511,339	-	-	-
	10,800,309	**5,234,917**	**10,288,970**	**5,234,917**

Movement during the year

Balance at the beginning of the year	5,234,917	14,291,780	5,234,917	14,291,780
Additions during the year	29,015,000	4,445,621	28,215,000	4,445,621
Income recognition during the year	(23,449,608)	(13,502,484)	(23,160,947)	(13,502,484)
	10,800,309	**5,234,917**	**10,288,970**	**5,234,917**

See note 29 for reconciliation of grants from National/Provincial Government.

An amount of R 543 012 has been overspent on MSIG, World Heritage and DME grants in total. The funds will be received in the new financial year (FY 2011), and as such, a debtor has been raised for the funds.

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

21. Provisions

Reconciliation of provisions - Economic entity - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	1,050,000	1,746,273	2,796,273
Provision for perfomance bonusses	489,066	558,487	1,047,553
	1,539,066	**2,304,760**	**3,843,826**

Reconciliation of provisions - Economic entity - 2009

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	-	1,050,000	-	1,050,000
Provision for perfomance bonusses	275,123	876,862	(662,919)	489,066
	275,123	**1,926,862**	**(662,919)**	**1,539,066**

Reconciliation of provisions - Controlling entity - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	1,050,000	1,746,273	2,796,273
Provision for perfomance bonusses	489,066	558,487	1,047,553
	1,539,066	**2,304,760**	**3,843,826**

Reconciliation of provisions - Controlling entity - 2009

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	-	1,050,000	-	1,050,000
Performance Bonus	275,123	876,862	(662,919)	489,066
	275,123	**1,926,862**	**(662,919)**	**1,539,066**

Non-current liabilities	2,796,273	1,050,000	2,796,273	1,050,000
Current liabilities	1,047,553	489,066	1,047,553	489,066
	3,843,826	**1,539,066**	**3,843,826**	**1,539,066**

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain provisions with a carrying value of R2 796 273 (2009: R1 050 000) was recognised at provisional amounts.

22. Trade and other payables from exchange transactions

Trade payables	134,555	126,342	134,555	126,342
Attourney fees	-	3,093	-	3,093
Accrued leave pay	2,880,177	2,671,612	2,880,177	2,671,612
Accrued Trade payables	189,718	21,123	189,718	21,123
Sundry Deposits	-	46,876	-	46,876
Retentions	2,288,425	2,676,417	2,288,425	2,676,417

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

22. Trade and other payables from exchange transactions (continued)

Other creditors	2,675	152	2,675	152
Sundry Creditors	1,644,991	-	1,644,991	-
Unidentified bank deposits	3,354,464	1,071,325	3,354,464	1,071,325
	10,495,005	**6,616,940**	**10,495,005**	**6,616,940**

23. VAT payable

VAT payable	8,417,912	7,970,083	8,417,912	7,970,083

VAT is payable on the receipt basis. Only once payment has been received is VAT paid to SARS.

24. Consumer deposits

Electricity & Water	2,213,131	2,000,681	2,213,131	2,000,681

The breakdown of the deposits could not be established by the Municipality.

25. Financial liabilities by category

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

Controlling entity - 2010

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other financial liabilities	6,468,561	-	-	6,468,561
Trade and other payables	10,495,005	-	-	10,495,005
	16,963,566	**-**	**-**	**16,963,566**

Controlling entity - 2009

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other financial liabilities	7,260,233	-	-	7,260,233
Trade and other payables	6,616,940	-	-	6,616,940
	13,877,173	**-**	**-**	**13,877,173**

26. Property Rates

Rates received

Residential	7,659,022	6,520,320	7,659,022	6,520,320
Commercial	4,233,632	3,915,079	4,233,632	3,915,079
State	3,228,617	1,226,963	3,228,617	1,226,963
	15,121,271	**11,662,362**	**15,121,271**	**11,662,362**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

27. Service charges

Sale of electricity	42,375,146	30,982,610	42,375,146	30,982,610
Sale of water	14,772,183	13,884,993	14,772,183	13,884,993
Sewerage and sanitation charges	4,975,666	4,254,636	4,975,666	4,254,636
Refuse removal	6,607,725	5,906,079	6,607,725	5,906,079
	68,730,720	**55,028,318**	**68,730,720**	**55,028,318**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

28. Government grants and subsidies

Library Grant	134,719	-	134,719	-
DME	4,778,486	4,000,000	4,778,486	4,000,000
Equitable Share (IGG)	29,392,669	22,527,197	29,392,669	22,527,197
Finance Management Grant (FMG)	327,594	500,000	327,594	500,000
MIG	14,271,309	3,906,922	14,271,309	3,906,922
Municipal Systems Improvement Grant (MSIG)	803,825	735,000	803,825	735,000
Disaster Management Grant	656,163	319,444	656,163	319,444
EDM Grant	-	52,105	-	52,105
World Heritage Grant	1,942,567	14,305	1,942,567	14,305
IDC Grant	288,661	-	-	-
	52,595,993	**32,054,973**	**52,307,332**	**32,054,973**

MIG Grant

Balance unspent at beginning of year	2,321,078	-	2,321,078	-
Balance unspent at beginning of year	-	6,322,261	-	6,322,261
Current-year receipts	17,620,000	5,854,643	17,620,000	5,854,643
Conditions met - transferred to revenue	(14,271,309)	(9,855,826)	(14,271,309)	(9,855,826)
	5,669,769	**2,321,078**	**5,669,769**	**2,321,078**

This grant was used to construct water & sanitation infrastructure, replacement of AC waterpipes, stormwater drainage and sportsfields.

No funds have been withheld.

Reconciliation of receipts to DORA report

Total receipts by Municipality	17,620,000	-	17,620,000	-
Add: Amount received in FY 2009 for 09/10 DORA allocation	1,462,000	-	1,462,000	-
Less: Amount received in FY 2010 for 10/11 DORA allocation	3,000,000	-	(3,000,000)	-
	22,082,000	**-**	**16,082,000**	**-**

PHP Housing

Balance unspent at beginning of year	789,296	-	789,296	-
Current-year receipts	-	789,296	-	789,296
Paid back to National Government	(789,296)	-	(789,296)	-
	-	**789,296**	**-**	**789,296**

This grant funding was not received under the Housing Act 107 of 1997 but Umjindi Municipality was only the account administrator for the Department of Co-Operative Governance and Traditional Affairs (CoGTA).

The unspent unspent funds from 2009 was repaid to the relevant department on their request during the financial year under review.

World Heritage Grant

Balance unspent at beginning of year	1,785,695	-	1,785,695	-
Current-year receipts	-	1,785,695	-	1,785,695
Conditions met - transferred to revenue	(1,942,567)	-	(1,942,567)	-
Overspent grants (sundry debtor)	156,872	-	156,872	-
	-	**1,785,695**	**-**	**1,785,695**

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

28. Government grants and subsidies (continued)

This grant was used according to the conditions as set in the service level agreement.

No funds have been withheld.

Disaster Management & MFMG Grant

Balance unspent at beginning of year	338,848	-	338,848	-
Current-year receipts	750,000	1,088,848	750,000	1,088,848
Conditions met - transferred to revenue	(983,757)	(750,000)	(983,757)	(750,000)
Overspent DM Grant (sundry debtor)	317,315	-	317,315	-
	422,406	**338,848**	**422,406**	**338,848**

Disaster Management Grant: This grant was used to construct Umjindi Municipality's disaster management centre.

No funds were withheld.

MFMG Grant: The grant was used according to the budget for 2009/ 2010 financial year.

No funds were withheld

Electrification Grant

Current-year receipts	8,960,000	-	8,960,000	-
Conditions met - transferred to revenue	(4,778,486)	-	(4,778,486)	-
	4,181,514	**-**	**4,181,514**	**-**

This grant was used to construct electricity infrastructures and supply electricity to various farm worker houses as per business plans submitted.

No funds were withheld.

Library Grant

Current-year receipts	150,000	-	150,000	-
Conditions met - transferred to revenue	(134,719)	-	(134,719)	-
	15,281	**-**	**15,281**	**-**

This grant was used according to the approved activity plan for the 2009/ 2010 financial year.

No funds were withheld.

MSIG & IDC

Current-year receipts	1,535,000	735,000	735,000	735,000
Conditions met - transferred to revenue	(1,092,486)	(735,000)	(803,825)	(735,000)
Overspent grant (sundry debtor)	68,825	-	68,825	-
	511,339	**-**	**-**	**-**

This grant was used according to the approved activity plan for the 2009/ 2010 financial year.

No funds were withheld.

Equitable Share Grant

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

28. Government grants and subsidies (continued)

Current-year receipts	29,392,669	22,527,197	29,392,669	22,527,197
Conditions met - transferred to revenue	(29,392,669)	(22,527,197)	(29,392,669)	(22,527,197)
	-	-	-	-

In terms of the Constitution, this grant is used to subsidise the provision of basic services:

All residential consumers water (6KL) and electricity (50Kwh)

All registered (approved) indigent community members are also being subsidised on solid waste removal and sanitation. All registered (approved) indigent community members receive 100% subsidy on Property Tax.

The equitable share (portion as gazetted) is also being used to subsidise the remuneration of councillors. No funds were withheld.

29. General expenses

Accounting fees	13,230	-	-	-
Bank charges	4,283	-	-	-
Consulting and professional fees	485,544	-	-	-
Insurance	654,013	700,860	654,013	700,860
Magazines, books and periodicals	14,836	20,443	14,836	20,443
Printing and stationery	777,550	818,519	770,481	818,519
Staff welfare	9,860	-	-	-
Telephone and fax	1,426,951	1,392,340	1,425,751	1,392,340
Training	3,837	-	-	-
Travel - local	2,019,277	2,280,532	2,019,277	2,280,532
Assets expensed	1	22,330	1	22,330
Departmental charges	(8)	6,048	(8)	6,048
General expense	27,831,586	1,099,867	27,831,586	1,099,867
Grant expenditure	1,725,419	391,449	1,725,419	391,449
	34,966,379	**6,732,388**	**34,441,356**	**6,732,388**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

30. Employee related costs

Basic	25,118,248	25,653,687	25,051,873	25,653,687
Performance Bonus (Section 57 Employees)	103,867	272,808	103,867	272,808
Medical aid - company contributions	1,856,309	1,753,409	1,856,309	1,753,409
UIF	276,869	288,169	276,869	288,169
Leave pay provision charge	1,941,581	1,824,003	1,941,581	1,824,003
Travel, motor car, accommodation, subsistence and other allowances	1,946,876	1,912,788	1,946,876	1,912,788
Overtime payments	2,478,738	2,127,600	2,478,738	2,127,600
Acting allowances	373,747	355,885	373,747	355,885
Housing benefits and allowances	848,594	1,116,220	848,594	1,116,220
Pension Contributions	5,468,692	5,238,912	5,468,692	5,238,912
	40,413,521	**40,543,481**	**40,347,146**	**40,543,481**

Remuneration of municipal manager

Annual Remuneration	891,478	799,532	891,478	799,532
Performance Bonuses	135,521	110,739	135,521	110,739
	1,026,999	**910,271**	**1,026,999**	**910,271**

Remuneration of chief finance officer

Annual Remuneration	784,905	703,950	784,905	703,950
Performance Bonuses	111,365	97,500	111,365	97,500
	896,270	**801,450**	**896,270**	**801,450**

Remuneration of executive directors

Annual Remuneration	1,464,122	1,313,114	1,464,122	1,313,114
Performance Bonuses	207,734	181,872	207,734	181,872
	1,671,856	**1,494,986**	**1,671,856**	**1,494,986**

31. Remuneration of councillors

Executive Major	556,550	553,147	556,550	553,147
Mayoral Committee Members	552,524	720,145	552,524	720,145
Speaker	445,547	449,109	445,547	449,109
Councillors	1,756,269	1,599,469	1,756,269	1,599,469
Councillors’ pension contribution	258,090	269,142	258,090	269,142
Councillors' medical aid contribution	79,462	68,643	79,462	68,643
	3,648,442	**3,659,655**	**3,648,442**	**3,659,655**

32. Debt impairment

Contributions to debt impairment provision	7,286,616	3,499,992	7,286,616	3,499,992

33. Investment revenue

Interest revenue				
Bank	686,838	391,274	656,461	391,274
Interest received - other	2,864	7,727	2,864	7,727
	689,702	**399,001**	**659,325**	**399,001**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

34. Depreciation and amortisation

Property, plant and equipment	29,690,672	29,631,353	29,690,672	29,631,353

35. Impairment of assets

Impairments				
Inventories	100,245	-	100,245	-
Obsolete and damaged stock was written off during the year.				

36. Finance costs

Current borrowings	852,322	1,037,298	852,322	1,037,298

37. Grants and subsidies paid

Grants Paid				
UMDA	-	-	-	272,360
BOB's Old Age Home	14,285	10,815	14,285	10,815
	14,285	**10,815**	**14,285**	**283,175**

The municipality paid a grant to the Umjindi Development Agency.

38. Bulk purchases

Electricity	28,065,406	20,411,765	28,065,406	20,411,765

39. Cash generated from operations

Deficit	(6,820,307)	(5,989,313)	(6,547,947)	(6,261,673)
Adjustments for:				
Depreciation and amortisation	29,690,672	29,631,353	29,690,672	29,631,353
Interest income	(689,702)	(399,001)	(659,325)	(399,001)
Finance costs	852,322	1,037,298	852,322	1,037,298
Impairment stock write down	100,245	-	100,245	-
Debt impairment	7,286,616	3,499,992	7,286,616	3,499,992
Movements in retirement benefit assets and liabilities	291,595	3,157,563	291,595	3,157,563
Movements in provisions	2,304,760	1,263,943	2,304,760	1,263,943
Intercompany transactions eliminated	-	(272,360)	-	-
Changes in working capital:				
Inventories	(425,562)	(196,294)	(425,562)	(196,294)
Other receivables from non-exchange transactions	(557,332)	(91,211)	(557,332)	(91,211)
Consumer debtors	(12,635,431)	(3,015,406)	(12,635,431)	(3,015,406)
Trade and other payables from exchange transactions	3,878,065	(2,932,425)	3,878,065	(2,932,425)
VAT	447,829	2,502,801	447,829	2,502,801
Unspent conditional grants	5,565,392	(9,056,863)	5,054,053	(9,056,863)
Consumer deposits	212,450	156,725	212,450	156,725
	29,501,612	**19,296,802**	**29,293,010**	**19,296,802**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

40. Contingencies

A dispute with a farmers' union is in process who seek compensation for a sewerage pipeline installed over their property. Land was originally offered as compensation which was declined. It was the indicated that a financial compensation would be considered, but it was again declined. They now want the land as previously offered. The estimated liability to the municipality is R150 000. Identified land (20ha) as was offered by Council. Process of transferring to commence.

SAMWU pension fund claim for monies erroneously paid to them. Advocate still in process to claim monies back. R198181.23 plus interest

The economic entity has dismissed some of its employees.

- Disciplinary hearing B.H.Nkosi ; Petrol Theft -various charges with combined value of +- R1500.00. Verdict of "guilty" but went on appeal scheduled for 9 Sept 2010.

- Disciplinary hearing M. Myeni ; Cable theft .Value +- R 72000.00 . Verdict of "Not Guilty"

Electricity - Vending agreement claim against council +- R 288 000

Case Mashile vs Umjindi municipality case 1010/10 +- R 50 000.

41. Related parties

Relationships

The Umjindi Municipal Development Agency (UMDA) was incorporated on 30 October 2008. The Umjindi Local Municipality Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2009.	Refer to accounting officer's report note
Ultimate holding company	Umjindi Local Municipality
Holding company	Umjindi Local Municipality

Authorised shares	1000 @ R1
Issued shares	100 @ R 1

Umjindi local municipality holds 100% of issued shares (to be confirmed).

Related party transactions

UMDA				
Grants paid to UMDA (Refer note 37)			-	272,360
Compensation to accounting officer and other key management				
Short-term employee benefits	103,867	272,808	103,867	272,808

42. Prior period errors

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

Statement of financial position				
Opening balances - Prior 2008	-	-	-	-
Provisional deemed cost adjustment - Infrastructure assets	24,305,361	550,897,910	24,305,361	550,897,910
Provisional adjusted to accumulated depreciation - Infrastructure assets	(22,029,806)	(360,462,993)	(22,029,806)	(360,462,993)
Recognition of land not previously recognised	21,864,177	1,035,000	21,864,177	1,035,000
Transfer of insurance reserve ringfenced in surplus	-	2,500,975	-	2,500,975

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009
42. Prior period errors (continued)				
Provisional adjustment to Leased assets (carrying value)	(118,354)	-	(118,354)	-
Provisional adjustment to Other assets (carrying value)	3,324,332	-	3,324,332	-
Provisional adjustment to Land	119,035,000	-	119,035,000	-
Provisional adjustment to Community assets (carrying value)	7,609,411	-	7,609,411	-
Provisional adjustment to Heritage assets	486,702	-	486,702	-
Provisional adjustment to Intangible assets (carrying value)	(4,666)	-	(4,666)	-
Provisional adjustment to Buildings (carrying value)	771	-	(771)	-
Total changes recognised in Surplus	(163,685,144)	(193,970,892)	(163,685,144)	(193,970,892)
Provisional adjustment to Leased assets (carrying value)	(8,221)	-	(8,221)	-
Provisional adjustment to Infrastructure assets (carrying value)	2,282,186	-	2,282,186	-
Provisional adjustment to Other assets (carrying value)	2,172,142	-	2,172,142	-
Capitalisation of Work in Process	16,777,470	-	16,777,470	-
Provisional adjustment to Intangible assets (carrying value)	17,360	-	17,360	-
Provisional adjustment to Buildings (carrying value)	1,575	-	1,575	-
Carrying value of Investment in UMDA	100	-	100	-
Total changes recognised in Surplus	(21,241,639)	-	(21,241,639)	-
Statement of financial performance				
Provisional adjustment to Leased assets	8,221	-	8,221	-
Provisional adjustment to Infrastructure assets	(2,281,186)	-	(2,281,186)	-
Provisional adjustment to Other assets	(2,172,142)	-	(2,172,142)	-
Capitalisation of Work in Process	(16,777,470)	-	(16,777,470)	-
Provisional adjustment to Intangible assets	(17,360)	-	(17,360)	-
Provisional adjustment to Buildings	(1,575)	-	(1,575)	-

43. Risk management

Interest rate risk

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

44. Going concern

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

44. Unauthorised expenditure (continued)

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 continue to procure funding for the ongoing operations for the municipality.

45. Events after the reporting date

Post balance sheet date, the municipality appointed actuaries to calculate the Post Retirement Benefit obligation. The materiality of the adjustment is unknown as the calculation is still being performed.

46. Fruitless and wasteful expenditure

Interest Paid to Creditors	38,843	206,796	38,843	206,796

The municipality has submitted letters and entered into discussions with SARS to recover interest that was paid. The municipality is awaiting feedback from SARS on their request. Interest due on outstanding amounts due to SARS for the period 1 April 2010 to 30 June 2010 could not be obtained from SARS as at compilation date.

No steps are taken to recover the interest paid over to the remaining creditors.

47. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	868,901	(116,198)	868,901	(116,198)
Amount paid - current year	321,512	985,099	321,512	985,099
	1,190,413	**868,901**	**1,190,413**	**868,901**

UIF

Current year payroll deduction	276,869	288,169	276,869	288,169
Amount paid - current year	(276,869)	(288,169)	(276,869)	(288,169)
	-	-	-	-

Pension and Medical Aid Deductions

Current year payroll deduction	1,856,309	1,753,409	1,856,309	1,753,409
Amount paid - current year	(1,856,309)	(1,753,409)	(1,856,309)	(1,753,409)
	-	-	-	-

VAT

VAT payable	8,417,912	7,970,083	8,417,912	7,970,083

VAT output payables and VAT input receivables are shown in note .

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 June 30, 2010:-

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

June 30, 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor E.N. Cecelo	2,146	4,489	6,635
Councillor P.V. Mkhatshwa	336	244	580
Councillor M.J. Magagula	142	110	252
Councillor M.E. Jacobs	1,358	-	1,358
Councillor G Sibiya	411	-	411
Councillor M.P. Magagula	477	-	477
Councillor S.H. Zunguze	426	-	426
Councillor T.R. Manyisa	707	-	707
Councillor V.R Lukhele	5,539	-	5,539
Councillor S.M. Zulu	799	-	799
	12,341	**4,843**	**17,184**

June 30, 2009	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor E.N. Cecelo	-	18,314	18,314

48. Deviation from supply chain management regulations

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

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

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The deviation details are reflected on Appendix A.

49. Project committments

Details of project commitments for the new financial year are reflected on Appendix B.