Planning by	Reviewed	Performed by	Final review

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Masilonyana Local Municipality

Annual Financial Statements
for the year ended 30 June 2010

General Information

Mayoral committee	
Executive Mayor	K.S. Koalane
Councillors	M.M. Lekaota (Speaker)
	Z.T. Ntjawabule
	S.L. Kgoe
	N.G. Mafa
	F. Posthumus
	T. Mjuleni
	S.J. Mabitla
	L.L. Leshosi
	D.T. Chakache
	X.J. Toki
	P.I. Oosthuizen
	P.T. Botha
	M.G. Maphobole
	A.G. Makekema
	I.W. Martens
	M.R. Chalale
	M.M. Mothekhe
	M.B. Tsoaela
Accounting Officer	M. Mpakane
Chief Finance Officer (CFO)	I.L. Tlatsi
Registered office	Cnr Le Roux and Pienaar Street THEUNISEN 9410
Business address	Cnr Le Roux and Pienaar Street THEUNISEN 9410
Postal address	P.O. Box 8 THEUNISEN 9410

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The reports and statements set out below comprise the annual financial statements presented to the Auditor-General:

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Masilonyana Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 44.

The annual financial statements set out on page 4 to 29s 4 to 33, which have been prepared on the going concern basis, were approved by the accounting officer on 26 August 2010 and were signed on its behalf by:

Accounting Officer
B.C. Mokomela (Appointed Administrator)

Masilonyana Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	5	379,356	379,356
Investments	4	4,822,856	-
Trade and other receivables from exchange transactions	6	3,510,298	8,416,891
Other receivables from non-exchange transactions	7	222,128	220,563
VAT receivable		-	8,980,312
Cash and cash equivalents	8	203,125	-
		9,137,763	**17,997,122**
Non-Current Assets			
Property, plant and equipment	2	435,532,395	405,807,769
Intangible assets	3	38,284	-
Investments	4	748,392	3,324,493
Other asset		998,055	-
		437,317,126	**409,132,262**
Total Assets		**446,454,889**	**427,129,384**
Liabilities			
Current Liabilities			
Other financial liabilities	9	239,879	-
Finance lease liability	10	354,508	-
Trade and other payables from exchange transactions	14	50,353,398	18,014,018
VAT payable	15	11,575,273	-
Unspent conditional grants and receipts	11	3,786,765	11,725,306
Provisions	12	6,011,830	-
Other	13	26,130,047	47,586,436
Bank overdraft	8	-	5,225,804
		98,451,700	**82,551,564**
Non-Current Liabilities			
Other financial liabilities	9	4,306,621	4,552,245
Finance lease liability	10	1,711,476	102,949
		6,018,097	**4,655,194**
Total Liabilities		**104,469,797**	**87,206,758**
Net Assets		**341,985,092**	**339,922,626**
Net Assets			
Accumulated surplus		341,985,087	339,922,631

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	17	7,374,579	9,833,326
Service charges	18	36,480,291	36,130,248
Fines		106,595	67,300
Licenses and permits		11,898	27,118
Government grants & subsidies	19	81,837,894	63,060,998
Fees earned		157,362	144,468
Rental income		206,308	145,049
Sundry Income		318,368	120,123
Miscellaneous other revenue		205,691	291,565
Investment Revenue - external investments	24	2,902,598	3,675,193
Total Revenue		**129,601,584**	**113,495,388**
Expenditure			
Employee Related Cost	21	(47,419,840)	(33,421,461)
Remuneration of councilors	22	(4,844,407)	(5,599,307)
Depreciation and amortisation	25	(3,836,892)	(232,391)
Finance costs	26	(1,166,750)	(1,465,718)
Debt impairment	23	(26,555,442)	(49,081,510)
Repairs and maintenance		(3,796,546)	(5,130,181)
Bulk purchases	27	(17,305,347)	(11,241,325)
General Expenses	20	(27,402,387)	(31,931,205)
Total Expenditure		**(132,327,611)**	**(138,103,098)**
Loss on disposal of assets and liabilities		(77,464)	-
Fair value adjustments		4,853,260	-
Gain / (Loss) on Fair Value Adjustment		12,693	1,781
Surplus (deficit) for the year		**2,062,462**	**(24,605,929)**

Masilonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand	Reserves	Loans Redeemed and Other Capital Receipts	Statutory Funds	Reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	814,509	253,737,805	17,604,781	272,157,095	(28,356,870)	243,800,225
Adjustments						
Change in accounting policy	(814,509)	(253,737,805)	(17,604,781)	(272,157,095)	272,157,095	-
Prior year adjustments	-	-	-	-	120,728,335	120,728,335
Balance at 01 July 2008 as restated	**-**	**-**	**-**	**-**	**364,528,560**	**364,528,560**
Changes in net assets						
Surplus /(Deficit) for the year	-	-	-	-	(24,605,929)	(24,605,929)
Total changes	-	-	-	-	(24,605,929)	(24,605,929)
Balance at 01 July 2009	**-**	**-**	**-**	**-**	**339,922,625**	**339,922,625**
Changes in net assets						
Surplus for the year	-	-	-	-	(2,790,798)	(2,790,798)
Fair Value Adjustment	-	-	-	-	4,853,260	4,853,260
Total changes	-	-	-	-	2,062,462	2,062,462
Balance at 30 June 2010	**-**	**-**	**-**	**-**	**341,985,087**	**341,985,087**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		28,893,522	32,710,737
Grants		73,899,353	74,786,304
Interest income		2,902,598	3,675,193
Other receipts		21,561,806	795,624
		127,257,279	111,967,858
Payments			
Employee costs		(49,430,932)	(39,020,768)
Suppliers		(19,673,886)	(84,746,436)
Finance costs		(1,166,750)	(1,465,718)
		(70,271,568)	(125,232,922)
Net cash flows from operating activities	28	**56,985,711**	**(13,265,064)**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(28,783,620)	(77,463)
Proceeds from sale of financial assets		(2,246,755)	(2,088,417)
Purchase of other asset		(998,055)	-
Other Assets		(1,565)	-
Net cash flows from investing activities		**(32,029,995)**	**(2,165,880)**
Cash flows from financing activities			
Repayment of other financial liabilities		(5,745)	303,153
Other Liabilities		(21,456,389)	-
GRAP Implementation		-	15,305,042
Finance lease		1,935,347	-
Net cash flows from financing activities		**(19,526,787)**	**15,608,195**
Net increase/(decrease) in cash and cash equivalents		**5,428,929**	**177,251**
Cash and cash equivalents at the beginning of the year		(5,225,804)	(5,403,055)
Cash and cash equivalents at the end of the year	8	**203,125**	**(5,225,804)**

Accounting Policies

1. Presentation of Annual Financial Statements

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

GRAP and GAAP standards are fundamentally different to the fund accounting policies adopted in the previous financial years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GRAP is set out in Note XXX

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied 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.

1.1 Presentation Currency

These annual financial statements are presented in South African Rand and are rounded to the nearest Rand.

1.2 Going Concern Assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months however it must be noted that the Municipality has been placed under administration in terms of Section 139 of the MFMA.

1.3 Comparative Information

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

In preparing the annual financial statements to conform with the standards of GRAP, management is required to make estimates, judgements and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future may differ from these estimates.

1.4 Standards, Amendments to Standards and Interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

ISSUED BUT NOT YET EFFECTIVE	STANDARD APPLIED
GRAP 18 Segment Reporting	Not applicable
GRAP 21 Impairment of non-cash-generating assets	IAS 36
GRAP 23 Revenue from Non-Exchange Transactions	GAMAP 9
GRAP 24 Presentation of Budget information in Financial Statements	Applied
GRAP 25 Employee Benefits	IAS 19
GRAP 26 Impairment of cash generating assets	IAS 36
GRAP 103 Heritage Assets	Not applicable

Accounting Policies

1.5 Reserves

1.5.1 Revaluation Reserve

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

1.5.2 Mark-to-Market Reserve

Gains and losses arising from available-for-sale financial assets are recognised in equity and not the statement of financial performance except for impairment losses and foreign exchange gains and losses until the asset is derecognised. On derecognition the cumulative gains or losses previously recognised in equity shall be transferred to the statement of financial performance as a reclassification adjustment. Gains and losses from interest calculated using the effective interest method, as well as dividends from available-for-sale equity instruments are excluded from these gains and losses.

1.6 Property, plant and equipment

1.6.1 Initial Recognition

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 municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Including import duties and non-refundable taxes.

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. Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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

1.6.2 Subsequent Measurement - Revaluation Model (Land and Buildings).

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses in respect of buildings only. An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.6.3 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.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Accounting Policies

1.6 Property, plant and equipment (continued)

1.6.4 Depreciation and Impairment.

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 following estimated average asset lives:

Item	**Average useful life**
Infrastructure Assets	
• Roads, pavements, bridges and storm water	30
• Street names, signs and parking meters	5
• Water reservoirs and reticulation	15-20
• Electricity reticulation	20-30
• Sewerage purification and reticulation	15-20
• Housing	30
• Refuse sites	15
Community Assets	
• Parks and gardens	10-30
• Sport fields	20-30
• Community halls	30
• Libraries	30
• Recreation facilities	20-30
• Clinics	30
• Fire services	30
• Cemeteries	30
Other Assets	
• Motor vehicles	5
• Plant and equipment	2-15
• Security measures	3-10
• Buildings	30
• IT Equipment	3-5
• Office equipment	3-7
• Specialised vehicles	10

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 in the Statement of Financial Performance

Heritage assets are assets that are defined as culturally significant resources and are not depreciated as they are regarded as having an infinite life which are shown at cost. However, if improvements to heritage assets are conducted and registered as sub-assets and the useful life of the improvements can be determined, the depreciation charge of the relevant property, plant and equipment category is used for the depreciation of the sub-asset which was capitalised against the heritage asset. The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. {Impairment loss of a revalued asset is treated as a revaluation decrease).The municipality has taken advantage of the transitional provisions in Directive 4 of February 2008, on initial adoption of the standard of GRAP on Property, Plant and Equipment, GRAP 17, to comply fully with this standard.

1.6.5 Derecognition.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6.6 Compensation for Impairment

Compensation for Impairment for items of PPE that were impaired, lost or given up shall be included in surplus or deficit when

1.6 Property, plant and equipment (continued)

the compensation becomes receivable. The municipality has taken advantage of the transitional provisions in Directive 4 of February 2008, on initial adoption of the standard of GRAP on Investment Property, GRAP 17, to comply fully with this standard.

1.7 Intangible assets

1.7.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential."

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset 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.

1.7.2 Subsequent Measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test. and the useful life is reviewed at each reporting date, and if the useful life has changed from indefinite and definite, it is treated as a change in accounting estimate in Statement of Financial Performance1.

1.7.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer Software	3
Licenses	5

1.7.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Investment property

1.8.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held (by the owner or lessee under a finance lease) to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the

1.8 Investment property (continued)
definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

1.8.2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated 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 following estimated average asset lives:

1.8.3 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

Property held by a lessee under an operating lease that qualifies as Investment property is always accounted for in fair value model.

The municipality has taken advantage of the transitional provisions in Directive 4 of February 2008, on initial adoption of the standard of GRAP on Investment Property, GRAP 16, to comply fully with this standard.

1.9 Non-current assets held for sale and disposal groups

1.9.1 Initial Recognition

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

1.9.2 Subsequent Measurement

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

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

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

1.10 Inventories

1.10.1 Initial Recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.10.2 Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the

1.10 Inventories (continued)

lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Unsold properties are valued at the lower of cost and net realisable value on a specific identification cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

In general, the basis of allocating cost to inventory items is the first-in, first-out method OR the weighted average method.

The municipality has taken advantage of the transitional provisions in Directive 4 of February 2008, on initial adoption of the standard of GRAP on Investment Property, GRAP 12, to comply fully with this standard.

1.11 Financial instruments

Initial recognition and measurement

Financial instruments are initially measured at fair value, plus,(in the case of financial instruments not at fair value through profit or loss), transaction costs. The fair value of a financial instrument that is initially recognised is normally the transaction price, unless the fair value is evident from the observable market data. The municipality uses a discounted cash flow model which incorporates entity-specific variables to determine the fair value of financial instruments that are not traded in an active market. Differences may arise between the fair value initially recognised in (which in accordance with IAS 39, is generally the transaction price) and the amount initially determined using the valuation technique. Any such differences are subsequently recognised in profit or loss only to the extent that they relate to a change in the factors (including time) that market participants would consider in setting the price.

Subsequent measurement

Investments

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

The Entity classifies its financial assets into the following categories:
• held-to-maturity;
• loans and receivables;
• available-for-sale; and
• fair value through profit and loss.

The classification depends on the purpose for which the financial asset is acquired, and is as follows:

• Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity, where the Entity has the positive intent and ability to hold the investment to maturity. They are subsequently measured at amortised cost, using the effective interest rate method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

• Loans and receivables are financial assets that are created by providing money, goods or services directly to a debtor. They are subsequently measured at amortised cost, using the effective interest rate method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

• Available-for-sale financial assets are financial assets that are designated as available for sale, and are subsequently measured at fair value at Statement of Financial Position date, except for investments in equity instruments that do not have quoted market prices in an active market, and whose fair value cannot be reliably measured, which shall be measured at cost. Any adjustment is recorded in the Statement of Changes in Net Assets in the period in which it arises. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. The fair

Accounting Policies

1.11 Financial instruments (continued)

value of financial instruments classified as available-for-sale is their quoted bid price at the Statement of Financial Position date.

• Fair value through profit and loss financial assets include derivative financial instruments used by the Entity to manage its exposure to fluctuations in interest rates attached to certain of its external borrowings interest swap agreements. Any fair value adjustment is recorded in the Statement of Financial Performance in the period in which it arises. To the extent that a derivative instrument has a maturity period of longer than a year, the fair value of these instruments will be reflected as a non-current asset or liability, and is subsequently measured at fair value at Statement of Financial Position date.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial asset, or, where appropriate a shorter period.

Trade and Other Receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. 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. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

Trade Payables and Borrowings

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

Impairment

• An assessment is performed at each Statement of Financial Position date to determine whether objective evidence exists that a financial asset is impaired. The carrying amounts of cash investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments. This reduction in carrying value is recognised in the Statement of Financial Performance.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectable, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

1.12 Provisions, Contingent Liabilities and Contingent Assets

1.12 Provisions, Contingent Liabilities and Contingent Assets (continued)

Provisions are recognised when the municipality has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality 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.

The municipality has complied with the transitional provisions in Directive 4 of February 2008, on initial adoption of the standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets, GRAP 19, in order to comply fully with this standard.

1.13 Leases

Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

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

Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. The aggregate benefit of incentives

1.13 Leases (continued)

of Operating lease are recognised as a reduction of rental expense on a straight-line basis over the term of the relevant lease.

1.14 Revenue from exchange transactions

Revenue shall be measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, VAT and other similar allowances.

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.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service Charges

Flat rate service charges relating to electricity and water which are based on consumption are metered and an estimate of consumption between the latest meter reading and the reporting date shall be 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.

Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumptions are made monthly when meter readings have not been performed and are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made and then recognised in the statement of financial performance in the invoicing period in which meters have been read.

Revenue from the sale of electricity prepaid meter credit is recognised at the point of sale.

In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on based on the average monthly consumption of consumers.

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

Service charges from sewerage and sanitation are based on the size of the property, number of dwelling on each property and connection, using the tariffs approved by Council and are levied monthly.

Sale of goods

Revenue from the sale of goods is recognised when substantially all the risks and rewards of ownership of the goods is passed to the consumer.

Revenue from the sale of erven is recognised when all conditions associated with the deed of sale have been met.

Interest, royalties and dividends

Interest shall be recognised on a time proportionate basis that takes into account the effective yield on the asset;

Royalties are recognised as they are earned on a time basis and is recognised on a straight-line basis over the period of the agreement. Royalty revenue that is based on production, sales and other measures is recognised in accordance with the substance of the relevant agreement; and

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Agency Services

1.14 Revenue from exchange transactions (continued)

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified.

The income recognised is in terms of the agency agreement.

The revenue is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Collection charges are recognised when such amounts are incurred.

1.15 Revenue from non-exchange transactions

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

Rates (including collection charges and penalty interest)

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Rebates are respectively granted to owners of land on which not more than two dwelling units are erected provided that such dwelling units are solely used for residential purposes. Additional relief is granted to needy, aged and/or disabled owners, based on income .

Assessment rates income is recognised once a rates account has been issued to ratepayers. Adjustments or interim rates are recognised once the municipal valuer has valued the change to properties.

Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Public donations and contributions

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Deferred income relating to government grants are recognised on the following bases:

• Capital contributions to property, plant and equipment: Credited on a systematic basis to the Statement of financial Performance based on the estimated useful life of the plant and equipment.
• Income-related grants subsidising expenses: Credited to the Statement of Financial Performance as revenue when the related expense is recognised

Contributed property, plant and equipment is recognised at fair value, when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Other

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

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

The municipality complied with Directive 3 of February 2008, on initial adoption of the standard of on Revenue from Exchange

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)
Transactions, GRAP 9,and has done so retrospectively according to the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

1.16 Government Grants, Transfers and Donations

Government Grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by municipalities rendering services.

Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed in their use.

Conditional grants, donations and funding were recognised as revenue in the Statement of Financial Performance to the extent that the Municipality has complied with any criteria, conditions or obligations embodied in the agreement/arrangement. To the extent that the criteria, conditions and obligations have not been met a liability is raised in the Statement of Financial Position. Unconditional grants, donations and funding are recognised as revenue in the Statement of Financial Position at the earlier of the date of receipt or when the amount is receivable.

Contributed assets are recognised at fair value when the risks and rewards associated with such asset transfer to the Municipality.

1.17 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, which include salaries and wages, short-term compensated absences, non-monetary benefits such as medical aid and performance plans, are expensed in the Statement of Financial Performance in the financial year during which the payment is made.

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

Termination Benefits

Termination benefits are recognised when actions have been taken to indicate that the municipality is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date; or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Retirement benefits

The municipality provides retirement benefits for its employees and councilors.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees and councilors have rendered the employment service or served office entitling them to the contributions.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the municipality pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of financial performance when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than Defined Contribution plans. The defined benefit plans are valued tri-annually by means of the projected unit credit method. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year in which they become payable.

Past service costs are recognised immediately where the benefit is vested or are amortised on a straight-line basis over the average period that it will take for such benefits to become vested.

Accounting Policies

1.17 Employee benefits (continued)

The retirement benefit obligations recognised in the Statement of Financial Position represents the present value of the defined benefit obligation, adjusted for unrecognised actuarial gains and losses, unrecognised service cost and the fair value of plan assets. Where an asset results, such asset is limited to unrecognised actuarial losses, past service costs and the present value of available refunds and reductions in future contributions to the plan.

Post employment medical care benefits

The municipality provides post employment medical care benefits to its employees and their legitimate spouses. The entitlement to post–retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost, of these benefits is accrued over the period of employment.

1.18 Unauthorised expenditure

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

1.19 Irregular expenditure

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

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Buildings	3,514,726	-	3,514,726	2,314,726	-	2,314,726
Infrastructure	166,501,890	-	166,501,890	158,285,295	-	158,285,295
Community	101,928,972	-	101,928,972	96,306,363	-	96,306,363
Other property, plant and equipment	153,781,598	(3,446,488)	150,335,110	148,823,921	-	148,823,921
Capital work in progress	11,511,917	-	11,511,917	-	-	-
Other leased Assets	2,128,082	(388,302)	1,739,780	1,161,956	(1,084,492)	77,464
Total	**439,367,185**	**(3,834,790)**	**435,532,395**	**406,892,261**	**(1,084,492)**	**405,807,769**

Reconciliation of property, plant and equipment - 2010

	Opening balance	**Additions**	**Disposals**	**Revaluations**	**Depreciation**	**Total**
Buildings	2,314,726	1,200,000	-	-	-	3,514,726
Infrastructure	158,285,295	8,216,595	-	-	-	166,501,890
Community	96,306,363	5,622,609	-	-	-	101,928,972
Other property, plant and equipment	148,823,921	104,417	-	4,853,260	(3,446,488)	150,335,110
Capital work in progress	-	11,511,917	-	-	-	11,511,917
Other leased Assets	77,464	2,128,082	(77,464)	-	(388,302)	1,739,780
	405,807,769	**28,783,620**	**(77,464)**	**4,853,260**	**(3,834,790)**	**435,532,395**

Reconciliation of property, plant and equipment - 2009

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Buildings	2,314,726	-	-	-	2,314,726
Infrastructure	155,111,014	3,174,281	-	-	158,285,295
Community	77,177,449	19,128,914	-	-	96,306,363
Other property, plant and equipment	148,826,117	55,118	(57,314)	-	148,823,921
Other leased Assets	1,161,956	-	-	(1,084,492)	77,464
	384,591,262	**22,358,313**	**(57,314)**	**(1,084,492)**	**405,807,769**

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.

3. Intangible assets

	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software, other	40,386	(2,102)	38,284	-	-	-

4. Investments

	2010	2009
At fair value through surplus or deficit - designated		
Unlisted shares	71,170	58,477
Terms and conditions		
Other financial asset 1	677,222	-
Terms and conditions		

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

4. Investments (continued)

	748,392	**58,477**
Held to maturity		
Other financial assets	4,822,856	3,266,016
Terms and conditions		
Total other financial assets	**5,571,248**	**3,324,493**
Non-current assets		
At fair value through surplus or deficit - designated	748,392	58,477
Held to maturity	-	3,266,016
	748,392	**3,324,493**
Current assets		
Held to maturity	4,822,856	-
	5,571,248	**3,324,493**

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

There were no gains or losses realised on the disposal of held to maturity financial assets in 2010 and 2009, as all the financial assets were disposed of at their redemption date.

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

5. Inventories

Inventories	379,356	379,356

The municipality has complied with the transitional provisions in Directive 3/4 of February 2008, on initial adoption of the standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets, GRAP 19, in order to comply fully with this standard.

6. Trade and other receivables from exchange transactions

Trade debtors	145,311,276	123,946,519
Provision: Bad Debts	(145,120,993)	(118,565,551)
Debtors: Sundries	3,320,015	3,035,923
	3,510,298	**8,416,891**

7. Other receivables from non-exchange transactions

Government grants and subsidies	46,907	46,907
Employee Debtors	175,221	173,656
	222,128	**220,563**

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	203,125	-
Bank overdraft	-	(5,225,804)
	203,125	**(5,225,804)**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

8. Cash and cash equivalents (continued)

	2010	2009
Current assets	203,125	-
Current liabilities	-	(5,225,804)
	203,125	**(5,225,804)**

The ABSA bank hold a session of R8000 and R12 000 on the fixed deposits.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2010	**30 June 2009**	**30 June 2008**	**30 June 2010**	**30 June 2009**	**30 June 2008**
ABSA Current Account 40-5351-7822	527,478	-	-	203,125	(5,225,804)	-
ABSA Call Account 90-6109-6643	4,697,951	10,556	-	4,697,951	10,556	-
ABSA Call Account 30-7437-9337	-	108,718	-	-	108,718	-
ABSA Fixed Deposit 20-5358-8077	238,724	220,138	-	238,724	220,138	-
ABSA Fixed Deposit 20-5173-9436	12,996	12,060	-	12,996	12,060	-
ABSA Fixed Deposit 20-4640-4292	11,058	9,947	-	11,058	9,947	-
ABSA Fixed Deposit 20-4900-4718	18,925	17,615	-	18,925	17,615	-
ABSA Fixed Deposit 30-5439-4690	11,960	11,543	-	11,960	11,543	-
ABSA Call Account 91-0161-0864	112,945	2,504,348	-	112,945	2,504,348	-
FNB Fixed Deposit 71-0611-15401	111,240	104,380	-	111,240	104,380	-
FNB Fixed Deposit 71-0750-02298	56,831	53,336	-	56,831	53,336	-
FNB Fixed Deposit 71-0748-25988	227,449	213,423	-	227,449	213,423	-
Total	**6,027,557**	**3,266,064**	**-**	**5,703,204**	**(1,959,740)**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

9. Other financial liabilities

At fair value through surplus or deficit		
Loan - ABSA	127,756	165,674
Loan - INCA	124,640	165,674
Loan - DBSA	4,294,104	4,220,897
	4,546,500	**4,552,245**
Non-current liabilities		
Fair value through surplus or deficit	4,306,621	4,552,245
Current liabilities		
Fair value through surplus or deficit	239,879	-
	4,546,500	**4,552,245**

10. Finance lease liability

Minimum lease payments due		
- within one year	762,669	105,752
- in second to fifth year inclusive	2,351,563	-
	3,114,232	105,752
less: future finance charges	(1,048,248)	(2,803)
Present value of minimum lease payments	**2,065,984**	**102,949**
Present value of minimum lease payments due		
- within one year	354,508	102,949
- in second to fifth year inclusive	1,711,476	-
	2,065,984	**102,949**
Non-current liabilities	1,711,476	102,949
Current liabilities	354,508	-
	2,065,984	**102,949**

The finance lease liability is secured by Photo Copier Machines. The agreement does not provide for contingent rental payments. Ownership of the machine will not pass to the municipality upon payment of the last instalment.

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	3,786,765	11,725,306
Movement during the year		
Balance at the beginning of the year	11,725,306	-
Additions during the year	16,488,000	27,374,000
Income recognition during the year	(24,426,541)	(15,648,694)
	3,786,765	**11,725,306**

See note 21 for reconciliation of grants from National/Provincial Government.

Figures in Rand	2010	2009

12. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	-	1,200,000	1,200,000
Post Retirement Medical Benefits	-	4,811,830	4,811,830
	-	**6,011,830**	**6,011,830**

The municipality has opted to account for Provisions based on provisional estimates according to Directive 4(19).93 regarding the measurement of provisions to the extent that the provisions are based on reasonable estimates and will be reviewed retrospectively over the next 3 years.

13. Other

	2010	2009
Unidentified Deposits	26,557,602	47,586,436

14. Trade and other payables from exchange transactions

	2010	2009
Trade payables	31,701,313	10,798,366
Debtors Payments received in advanced	6,687,501	-
Creditors for SDL	591,238	591,238
Deposits received	914,884	851,120
Salary Suspense	1,912,789	1,166,552
Motor Loan: SJ Mohlabane	2,277	2,277
Creditors: Retention	1,851,853	-
Provision for Compensation Fund	1,902,792	1,559,782
Provision for Leave	3,133,643	2,509,236
Provision for Bonuses	1,655,108	535,447
	50,353,398	**18,014,018**

15. VAT payable

	2010	2009
Tax refunds payables	11,575,273	-

16. Revenue

	2010	2009
Property rates	7,374,579	9,833,326
Service charges	36,480,291	36,130,248
Fines	106,595	67,300
Licenses and permits	11,898	27,118
Government grants & subsidies	81,837,894	63,060,998
Fees earned	157,362	144,468
Rental income	206,308	145,049
Sundry Income	318,368	120,123
Miscellaneous other revenue	205,691	291,565
	126,698,986	**109,820,195**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2010	2009
Service charges	36,480,291	36,130,248
Licenses and permits	11,898	27,118
Fees earned	157,362	144,468
Rental income	206,308	145,049
Miscellaneous other revenue	205,691	291,565
	37,061,550	**36,738,448**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

16. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	7,374,579	9,833,326
Fines	106,595	67,300
Government grants & subsidies	81,837,894	63,060,998
Sundry Income	318,368	120,123
	89,637,436	**73,081,747**

17. Property rates

Rates received

Residential	7,374,579	9,833,326

18. Service charges

Sale of electricity	16,726,848	10,980,798
Sale of water	6,138,658	7,566,745
Sewerage and sanitation charges	8,621,452	10,944,412
Refuse removal	4,985,447	6,635,250
Other service charges	7,886	3,043
	36,480,291	**36,130,248**

19. Government grants and subsidies

Equitable share	51,952,911	47,412,304
Financial Management Grant (FMG)	2,750,000	1,250,000
Municipal Systems Improvement Grant (MSIG)	735,000	735,000
LDM Grant	100,000	-
COGTA Financial Relief Grant	4,543,274	-
DBSA Grant	815,168	-
Municipal Infrastructure Grant (MIG)	20,941,541	13,663,694
	81,837,894	**63,060,998**

MIG

Balance unspent at beginning of year	11,725,306	-
Current-year receipts	13,003,000	25,389,000
Conditions met - transferred to revenue	(20,941,541)	(13,663,694)
	3,786,765	**11,725,306**

Conditions still to be met - remain liabilities (see note 13)

FMG

Current year receipts	2,750,000	1,250,000
Conditions met - transferred to revenue	(2,750,000)	(1,250,000)
	-	**-**

MSIG

Current year receipts	735,000	735,000
Conditions met - transferred to revenue	(735,000)	(735,000)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

20. General expenses

Accounting fees	2,242,278	752,271
Advertising	1,080,423	1,654,934
Bank charges	208,563	305,658
Cleaning	-	103,357
Consulting and professional fees	2,598,191	1,373,604
Consumables	58,098	6,381
Donations	-	23,752
Entertainment	31,767	87,165
Fines and penalties	1,525,383	-
Licence & Registration - Vehicles	79,441	74,888
Licence Fees - Financial System	1,411,826	65,138
Insurance	328,761	278,704
Community development and training	348,155	653,415
PMU Expenses	66,045	77,220
Lease rentals on operating lease	3,966,324	4,345,546
Magazines, books and periodicals	-	273
IDP Review	640,562	120,513
Fuel and oil	1,063,493	1,433,353
Postage and courier	431,558	293,800
Printing and stationery	327,132	344,612
Security (Guarding of municipal property)	79,824	125,813
Software expenses	24,389	71,389
Subscriptions and membership fees	208,200	-
Telephone and fax	2,702,880	2,121,311
Training	223,706	556,481
Travelling, Accom. & Subsistence	403,891	1,189,442
Electricity	-	(213,875)
Water	-	(24,678)
Uniforms	328,303	362,118
Bursaries	139,267	177,282
Meter Reading	-	146,700
Office Expenditure	-	1,276,109
Pauper Burials	70,250	84,019
Computer Equipment	-	6,634
Valuation Cost	3,754,825	2,400,000
Penalties Various	-	520,706
Youth Development Programme	-	65,004
To be cleared	-	1,792,623
Lease Charges	212,117	-
Chemicals	2,815,534	2,397,972
Special Programmes	500	118,538
Indigent Support	30,683	6,568,966
Other expenses	18	194,067
	27,402,387	**31,931,205**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

21. Employee related costs

Employee Related Cost - Salaries and Wages	28,581,489	22,925,438
Bonus	1,963,005	-
Medical aid - company contributions	1,463,492	1,500,987
UIF	274,801	216,013
WCA	343,010	332,193
SDL	219,480	249,352
Other payroll levies	14,873	14,383
Provision Leave	624,407	(219,662)
Provision Bonuses	1,119,661	150,102
Post-employment benefits - Pension - Defined contribution plan	9,384,292	3,644,747
Overtime payments	1,353,218	1,558,876
Housing benefits and allowances	49,731	136,425
Holiday Bonus	-	1,568,616
Allowance: Cell Phones	31,424	-
Allowance: Locomotion - Fixed	1,829,041	-
Allowance: Standby	72,818	-
Allowance: Sundry	95,098	-
Allowance: Travel	-	1,343,991
	47,419,840	**33,421,461**

Remuneration of municipal manager

Annual Remuneration	321,717	441,439
Travel, motor car, accommodation, subsistence and other allowances	125,000	137,448
Contributions to UIF, Medical and Pension Funds	873	683
	447,590	**579,570**

Remuneration of chief finance officer

Annual Remuneration	453,260	397,821
Travel, motor car, accommodation, subsistence and other allowances	198,756	132,000
Contributions to UIF, Medical and Pension Funds	1,539	1,539
	653,555	**531,360**

22. Remuneration of councilors

Mayor	525,035	494,308
Mayoral Committee Members	663,100	623,903
Speaker	408,492	380,445
Councilors	3,247,780	4,100,651
	4,844,407	**5,599,307**

I certify that the remuneration of Councilors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

23. Debt impairment

Debt impairment	26,555,442	49,081,510

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

24. Investment revenue

Interest revenue		
Associates	159,079	165,544
Bank	123	-
Interest charged on trade and other receivables	2,743,396	3,509,649
	2,902,598	**3,675,193**

25. Depreciation and amortisation

Property, plant and equipment	3,834,790	232,391
Intangible assets	2,102	-
	3,836,892	**232,391**

26. Finance costs

Non-current borrowings	1,166,750	1,222,889
Bank	-	242,829
	1,166,750	**1,465,718**

27. Bulk purchases

Electricity	16,831,591	10,046,413
Water	473,756	1,194,912
	17,305,347	**11,241,325**

28. Cash generated from (used in) operations

Surplus (deficit)	2,062,462	(24,605,929)
Adjustments for:		
Depreciation and amortisation	3,836,892	232,391
Gain on sale of assets and liabilities	77,464	-
Income from equity accounted investments	(12,693)	(1,781)
Fair value adjustments	(4,853,260)	-
Debt impairment	26,555,442	49,081,510
Movements in provisions	6,011,830	-
Changes in working capital:		
Consumer debtors	(21,648,850)	(13,252,836)
Trade and other payables from exchange transactions	32,339,380	(31,830,486)
VAT	20,555,585	(4,613,239)
Unspent conditional grants and receipts	(7,938,541)	11,725,306
	56,985,711	**(13,265,064)**

29. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	74,061,466	-

This committed expenditure relates to Infrastructure and will be financed by Grant funding

30. Going concern

We draw attention to the fact that the Municipality was placed under Administration in terms of Section 139 of the MFMA.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

31. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Current year subscription / fee	208,200	-

Audit fees

Opening balance	220,535	-
Current year subscription / fee	2,242,278	752,270
Amount paid - current year	(667,024)	(531,735)
	1,795,789	**220,535**

PAYE and UIF

Opening balance	254,025	-
Current year subscription / fee	3,741,737	3,100,227
Amount paid - current year	(3,607,576)	(2,846,202)
Amount paid - previous years	(254,025)	-
	134,161	**254,025**

Pension and Medical Aid Deductions

Opening balance	717,627	-
Current year subscription / fee	9,541,188	7,760,578
Amount paid - current year	(7,977,568)	(7,042,951)
Amount paid - previous years	(717,627)	-
	1,563,620	**717,627**

VAT

VAT receivable	-	8,980,312
VAT payable	11,575,273	-
	11,575,273	**8,980,312**

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

Councilors' arrear consumer accounts

The following Councilors had arrear accounts outstanding for more than 90 days at 30 June 2010:

30 June 2010	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Chakache DT	187	2,656	2,843
Mafa MG	123	6,529	6,652
Botha PT	1,758	6,244	8,002
Mabitla SJ	-	9,917	9,917
Leshosi LL	187	8,407	8,594
	2,255	**33,753**	**36,008**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

32. Change in Accounting Policy - Implementation of GRAP

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GRAP: -

32.1 Statutory Funds

Balance previously reported: -		
Capital Development Fund	-	10,394,085
Erven Trust Fund	-	2,747,074
Community Development Fund	-	3,737
Renewal Fund	-	4,433,625
Infrastructure Fund	-	26,260
Total	**-**	**17,604,781**
Implementation of GRAP		
Transferred to Accumulated Surplus (see 31.8 below)	-	17,604,781

32.2 Loans Redeemed and Other Capital Receipts

Balance previously reported	-	253,737,805
Implementation of GRAP		
Transferred to Accumulated Surplus (see 31.8 below)	-	253,737,805

32.3 Provisions

Balance previously reported		
Annual Bonuses	-	385,344
Staff leave provision	-	2,728,898
Total	**-**	**3,114,242**
Implementation of GRAP		
Transferred to accruals	-	385,344
Transferred to accruals	-	2,728,898
Total	**-**	**3,114,242**

32.4 Reserves

Balance previously reported	-	814,509
Implementation of GRAP		
Transferred to Accumulated Surplus/(Deficit) (see 31.8 below)	-	814,509

32.5 Trade and other payables

Balance previously reported	-	60,471,540
Implementation of GRAP		
Transferred from provisions	-	3,114,242

32.6 Property, plant and equipment

Balance previously reported	-	254,770,855
Implementation of GRAP		
Finance leases capitalised	-	1,445,470

Correction of Error (Refer Note 34)

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

32. Change in Accounting Policy - Implementation of GRAP (continued)

Property previously omitted	-	130,412,438
Assets duplicated	-	(3,334,612)
Assets written off	-	(57,314)
Clinics previously transferred to Province	-	(834,245)
	-	**126,186,267**

32.7 Accumulated Depreciation - Implementation of GRAP

Backlog depreciation: Leased Assets (debited to Accumulated Surplus/(Deficit) (see 31.8 below)	-	852,101

32.8 Accumulated Surplus/(Deficit)

Transferred from statutory funds (see 33.1 above)	-	17,604,781
Transferred from Loans Redeemed and Other Capital Receipts (see 33.2 above)	-	253,737,805
Transferred from reserves (see 33.1 above)	-	814,509
Backlog depreciation (see 33.7 above)	-	(852,101)
Total	**-**	**271,304,994**

32.9 Impact of GRAP Implementation for 2009
Impact on 2009 results

Reversal of redemption from operating expenditure	-	(640,748)
Reversal of contributions to CDF	-	(890,000)
Re-allocation of investment income to revenue	-	(119,404)
Re-allocation of revenue to Erven Trust Fund	-	(3,856)
Infrastructure spend recognised as revenue (Equitable Share)	-	(5,168,647)
Reversal of contributions to Capital	-	(5,944,926)
Infrastructure spend recognised as revenue (MIG)	-	(13,663,694)
Lease Assets (Depreciation 2009)	-	232,391
Lease Assets (Interest Paid 2009)	-	33,742
Lease Assets (Reversal of equipment Rental)	-	(317,257)
	-	**(26,482,399)**

32.10 Impact of GRAP Implementation for Prior years

Lease Assets (Loan repayments)	-	(775,492)

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

33. Correction of Error

Accumulated Surplus		
Loans redeemed (Conversion)	-	3,562,621
Inventory	-	(294,996)
Petty Cash	-	(1,565)
Correction to Consumer Deposit held	-	9,662
VAT Corrections	-	(4,613,239)
Removal of Clinics	-	834,245
Assets - Erven previously not captured	-	(129,044,438)
Capital Expenditure	-	15,550
Erven previously capitalised	-	561,650
VAT on Capital Expenditure	-	4,083
Correction of Prior year assets	-	3,000
Correction of Prior year assets	-	395,800
Correction of Prior year assets	-	7,400
Correction of Prior year assets	-	936,912
Correction of Prior year assets	-	33,800
Correction of Prior year assets	-	11,500
Provisions and Reserves	-	58,314
Capital Projects	-	(4,083)
Provision for Compensation Commissioner payments	-	1,227,589
Expense suspense	-	2,719,716
Bulk Water Purchases	-	2,771,413
	-	**(120,805,066)**

Impact on 2009 results		
Provision for Compensation Commisioner payments	-	332,193
Bulk Water Purchases	-	1,179,833
Rental Received previously not recognised	-	(2,800)
Correction of Salaries	-	(9,318)
	-	**1,499,908**

34. Contingent Liabilities

Bon Accord Safaries (PTY) LTD and 4 other claimants have brought a claim against the Municipality for a veld fire amounting to R1 291 019.50.

Gladys Mosidi Ramotseoa has brought a case to SALGBC to claim re-instatement.

35. Contingent Assets

A pending insurance claim SNA48L007013 to the approximate value of R30 000.00 regarding the theft at the Winburg offices

A pending insurance claim SNA48L007046 to the value of R35 000.00 in respect of the write-off of the Traffic vehicle: Tata CZJ 125 FS.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

36. Unauthorised, Irregular, Fruitless and Wasteful Expenditure Disallowed

36.1 Unauthorised expenditure

Unauthorised expenditure current year	2,744,148	-

36.2 Fruitless and wasteful expenditure

Interest and penalties on PAYE, SDL and UIF due to late payment	158,664	-
Interest on late payments	213,166	-
Interest and penalties on late payment of VAT	2,213,117	-
	2,584,947	**-**

36.3 Irregular expenditure

Councilor remuneration - not in accordance with Government Gazette	1,344,149	-
Correct procurement procedures not followed	50,702,032	-
	52,046,181	**-**