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

General Information

Bankers	ABSA

Index

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

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
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Report

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

1. Accounting policies

The following International Financial Reporting Standards were applied prior to the commencement dates in the current year:

Details to be input here...

The impact on the results of the municipality in adopting the above policies is reflected in note - to the annual financial statements.

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

2. Corporate governance

3. Bankers

The annual financial statements set out on pages 6 to 69, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

Accounting Officer

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Other financial assets	6	750,055	1,147,685
Inventories	8	1,313,729	817,359
Trade and other receivables from exchange transactions	9	51,764,659	88,764,476
Other receivables from non-exchange transactions	10	3,099,294	2,275,972
Cash and cash equivalents	12	102,566	59,066
		57,030,303	**93,064,558**
Non-Current Assets			
Investment property	3	6,403,662	6,403,662
Office Equipment	4	1,227,656,798	1,227,638,727
Intangible assets	5	679,035	655,747
Other financial assets	6	240,666	211,050
Prepayments		-	1,183,455
		1,234,980,161	**1,236,092,641**
Total Assets		**1,292,010,464**	**1,329,157,199**
Liabilities			
Current Liabilities			
Cash and Cash Equivalents	12	72,637,834	25,448,041
Other financial liabilities	13	3,135,415	2,563,858
Finance lease obligation	14	20,255	36,921
Trade and other payables from exchange transactions	17	71,766,126	54,246,390
VAT payable	18	13,485,852	11,710,540
Unspent conditional grants and receipts	15	5,701,140	9,716,000
		166,746,622	**103,721,750**
Non-Current Liabilities			
Other financial liabilities	13	32,762,574	37,275,741
Finance lease obligation	14	-	20,255
Retirement benefit obligation	7	25,580,112	21,400,326
Provisions	16	17,531,900	18,929,300
Consumer deposits		3,414,215	3,278,322
		79,288,801	**80,903,944**
Total Liabilities		**246,035,423**	**184,625,694**
Net Assets		**1,045,975,041**	**1,144,531,505**
Net Assets			
Accumulated surplus		1,045,975,041	1,144,531,505

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Rendering of sundry services		1,583,499	1,123,843
Property rates	20	53,271,317	52,074,194
Service charges	21	202,885,493	175,961,990
Sale of housing		62,327	29,070
Rental of facilities and equipment		2,810,164	3,525,265
Interest received		13,693,209	12,381,085
Fines		204,758	251,160
Licences and permits		39,325	33,987
Government grants and subsidies	22	146,100,018	115,541,926
Other income		4,041,099	2,795,940
Interest Received - Investments	27	54,386	44,040
Gains on disposal of assets	27	-	10,251,726
Discounting of Revenue	27	2,622,931	-
Total Revenue		**427,368,526**	**374,014,226**
Expenditure			
Employee Related Costs	24	(130,747,953)	(102,975,598)
Remuneration of councillors	25	(8,440,473)	(7,917,822)
Depreciation and amortisation	29	(69,964,916)	(69,847,228)
Finance costs	31	(10,993,993)	(6,316,006)
Debt impairment	26	(115,009,420)	(128,213,955)
Repairs and maintenance		(17,902,740)	(16,891,644)
Bulk purchases	37	(86,498,577)	(56,866,979)
Contracted services	35	(1,946,477)	(1,319,356)
Grants and subsidies paid	36	(5,301,504)	(9,365,512)
General Expenses	23	(77,364,961)	(82,278,420)
Total Expenditure		**(524,171,014)**	**(481,992,520)**
Fair value adjustments - Accounts Payable		816,257	-
Fair value adjustments - Investments	28	64,784	30,950
Fair value adjustments - Accounts Receivable		(625,834)	(1,124,983)
Fair value adjustments - Game Stock		173,400	(1,031,600)
Deficit for the year		**(96,373,881)**	**(110,103,927)**

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported	-	1,275,802,125	1,275,802,125
Adjustments			
Difference regarding 2007 prior year error	-	255,957	255,957
Change in accounting policy, Implementation of GRAP	-	983,620	983,620
Prior year adjustments	-	(23,719,894)	(23,719,894)
Balance at 01 July 2008 - Restated	**-**	**1,253,321,808**	**1,253,321,808**
Changes in net assets			
Surplus for the year	-	(110,103,927)	(110,103,927)
Other 1	-	1,313,624	1,313,624
Total changes	-	(108,790,303)	(108,790,303)
Opening balance as previously reported	-	1,141,035,297	1,141,035,297
Adjustments			
Prior year adjustments	-	1,313,625	1,313,625
Balance at 01 July 2010 as restated	**-**	**1,142,348,922**	**1,142,348,922**
Changes in net assets			
(Deficit) for the year	-	(96,373,881)	(96,373,881)
Total changes	-	(96,373,881)	(96,373,881)
Balance at 30 June 2011	**-**	**1,045,975,041**	**1,045,975,041**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		200,041,230	186,162,556
Grants		142,085,158	122,558,926
Other receipts		54,386	-
		344,858,091	308,721,482
Payments			
Employee costs		(130,398,180)	(108,887,917)
Suppliers		(164,880,703)	(120,337,825)
Other payments		(10,993,993)	-
		(317,266,869)	(235,503,974)
Net cash flows from operating activities	38	**27,591,222**	**73,217,508**
Cash flows from investing activities			
Purchase of office equipment	4	(70,889,235)	(55,715,280)
Proceeds from sale of office equipment	4	-	10,251,726
Proceeds from sale of financial assets		-	22,970
Proceeds from sale of long-term debtors		-	326,963
Other cash item		-	(15,095)
Interest Income		-	25,925
Net cash flows from investing activities		**(70,889,235)**	**(45,102,791)**
Cash flows from financing activities			
Repayment of other financial liabilities		(4,513,167)	(5,416,861)
Movement in consumer deposits		135,893	89,047
Finance lease payments		(36,921)	(70,377)
Adjustment posted directly in surplus		565,915	(615,953)
Net cash flows from financing activities		**(3,848,280)**	**(6,014,144)**
Net increase/(decrease) in cash and cash equivalents		**(47,146,293)**	**22,100,573**
Cash and cash equivalents at the beginning of the year		(25,388,975)	(47,489,548)
Cash and cash equivalents at the end of the year	12	**(72,535,268)**	**(25,388,975)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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 Seperate Financial Statements
GRAP 7 Investments in Associates
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 (AC140) Business Combinations
IFRS 4 (AC141) Insurance Contracts
IFRS 6 (AC143) Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC144) Financial Instruments: Disclosures
IAS 12 (AC102) Income Taxes
IAS 19 (AC116) Employee Benefits
IAS 32 (AC125) Financial Instruments: Presentation
IAS 36 (AC128) Impairment of Assets
IAS 39 (AC133) Financial Instruments: Recognition and Measurement

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of 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

The municipality assesses its trade 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 municipality 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 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.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions 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 municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including maintenance, changes in technology, market conditions, together with economic factors such as interest rate fluctations..

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 16 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

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

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Investment property is recognised as an asset when, 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.

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.

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.

1.3 Office Equipment

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

The cost of an item of office 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.

Office Equipment is initially measured at cost.

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

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

Accounting Policies

1.3 Office Equipment (continued)

Where an item of office 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 office equipment have different useful lives, they are accounted for as separate items (major components) of office equipment.

Costs include costs incurred initially to acquire or construct an item of office 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 office equipment, the carrying amount of the replaced part is derecognised.

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

Recognition of costs in the carrying amount of an item of office 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 office equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of office equipment are accounted for as office equipment.

Office Equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of office equipment have been assessed as follows:

Item	**Average useful life**
Infrastructure	
• Roads and Paving	10 - 30
• Airports	20
• Pedestrian Malls	20
• Electricity	10 - 30
• Water	15 - 20
• Sewerage	15 - 40
• Security Measures	3 - 5
Community	
• Buildings community	30
• Recreational Facilities	20
• Land	Infinite
Other property, plant and equipment	
• Office Equipment	5 - 7
• Furniture and Fittings	7 - 10
• Bins and Containers	5 - 10
• Emergency Equipment	5 - 15
• Motor Vehicles	3 - 20
• Plant and Equipment	5 - 15
• Buildings other	Infinite
• Other (Aircraft)	15

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.

The usefull lifes are based on management's estimation. Managment considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum usefull life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their usefull lives, and what their condition will be at that time.

The Municipality maintains and aquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

1.3 Office Equipment (continued)

Each part of an item of office 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.

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

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

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 municipality or from other rights and obligations.

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

Intangible assets are initially recognised at cost.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these office 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.

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	3 years

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities at fair value through surplus or deficit
- Financial liabilities measured at amortised cost

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

1.5 Financial instruments (continued)

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

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

Loans and receivables are subsequently measured at 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 municipality 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 municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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

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

1.5 Financial instruments (continued)

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

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

Trade and other receivables

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

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

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

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.

Gains and losses

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

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition of Financial Instruments

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:

1.5 Financial instruments (continued)

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

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

Financial liabilities

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

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 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.

1.6 Leases (continued)

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

Operating leases - lessor

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

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

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.

1.7 Inventories

Water inventory are measured at the lower of cost and net realisable value.

Other inventory are measured at the lower of cost and net replacement value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of reporting date 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 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 are 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.

1.8 Non-current assets held for sale

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 is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

A non-current asset is not depreciated 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.

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.10 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 municipality’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Other post retirement obligations

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

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

1.11 Provisions and contingencies

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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.

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

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

When 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.

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.

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

1.13 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.

Accounting Policies

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

Fines

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

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

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 municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

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

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

Other grants and donations

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

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Investment income

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

1.15 Borrowing costs

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

1.16 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.

1.17 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.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

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

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

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

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

1.19 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 municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Presentation of Currency

These annual financial statements are presented in South african Rand which is the functional currency.

1.21 Offsetting

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

1.22 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.

1.23 Conditional Grants and receipts

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

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

GRAP 18: Segment Reporting

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

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

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

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

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

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

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

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

GRAP 23: Revenue from Non-exchange Transactions

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality'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 municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 103: Heritage Assets

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

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

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

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

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

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

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

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

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

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 21: Impairment of non-cash-generating assets

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

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

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

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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

2. New standards and interpretations (continued)

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

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

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 26: Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

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

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

2. New standards and interpretations (continued)

- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

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

GRAP 104: Financial Instruments

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

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

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

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

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

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

2. New standards and interpretations (continued)

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

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

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality’s statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

2. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

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

3. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	6,403,662	-	6,403,662	6,403,662	-	6,403,662

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property	6,403,662	6,403,662

Reconciliation of investment property - 2010

	Opening balance	**Total**
Investment property	6,403,662	6,403,662

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

Details of valuation

The valuation was based on values of the properties as contained in the valuation roll. The valuation roll was updated by Arthur Lelosa independent valuers and implemented on the 1st of July 2009.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Office Equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Infrastructure - Water	361,027,932	(66,985,904)	294,042,028	357,888,691	(44,576,409)	313,312,282
Bins and containers	1,258,372	(637,931)	620,441	3,786,343	(2,225,809)	1,560,534
Community Assets - Buildings	53,526,654	(5,626,869)	47,899,785	49,122,017	(3,746,578)	45,375,439
Infrastructure - Electricity	145,103,935	(20,208,888)	124,895,047	141,923,458	(13,472,592)	128,450,866
Infrastructure Solid Waste - Land	33,419,863	-	33,419,863	33,419,863	-	33,419,863
Finance Leased Assets	-	15,731	15,731	-	47,169	47,169
Furniture and equipment	2,177,814	(1,185,607)	992,207	2,030,360	(1,023,619)	1,006,741
Infrastructure - Sewer	303,506,045	(39,399,320)	264,106,725	303,311,425	(26,266,213)	277,045,212
Emergency Equipment	296,358	(105,045)	191,313	315,543	(105,801)	209,742
Community Assets - Land	90,655,163	-	90,655,163	90,655,163	-	90,655,163
Infrastructure Solid Waste - Buildings	107,382,270	(5,881,325)	101,500,945	107,382,270	(3,920,883)	103,461,387
Security Equipment	3,070	(3,070)	-	3,070	(3,070)	-
Infrastructure - Roads	277,481,360	(56,663,156)	220,818,204	251,132,436	(37,686,175)	213,446,261
Motor Vehicles	16,085,677	(13,340,942)	2,744,735	16,085,677	(11,594,507)	4,491,170
Office Equipment	12,705,554	(7,582,163)	5,123,391	12,441,734	(7,046,169)	5,395,565
Work in Progress	31,182,094	-	31,182,094	-	-	-
Plant and Equipment	14,635,717	(6,805,791)	7,829,926	14,343,506	(6,027,973)	8,315,533
Game Stock	1,619,200	-	1,619,200	1,445,800	-	1,445,800
Total	**1,452,067,078**	**(224,410,280)**	**1,227,656,798**	**1,385,287,356**	**(157,648,629)**	**1,227,638,727**

4. Office Equipment (continued)

Reconciliation of office equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Infrastructure Solid Waste - Land	33,419,863	-	-	-	33,419,863
Community Assets - Builidings	45,375,439	4,473,890	-	(1,949,544)	47,899,785
Plant and equipment	8,315,533	411,199	(407)	(896,399)	7,829,926
Furniture and equipment	1,006,741	150,861	-	(165,395)	992,207
Motor vehicles	4,491,170	-	-	(1,746,435)	2,744,735
Office equipment	5,395,565	1,124,665	(18,862)	(1,377,977)	5,123,391
Infrastructure - Roads	213,446,261	26,348,923	-	(18,976,980)	220,818,204
Community Assets - Land	90,655,163	-	-	-	90,655,163
Infrastructure Solid Waste - Buildings	103,461,387	-	-	(1,960,442)	101,500,945
Infrastructure - Electricity	128,450,866	3,180,476	-	(6,736,295)	124,895,047
Bins and containers	1,560,534	-	(863,689)	(76,404)	620,441
Emergency Equipment	209,742	-	-	(18,429)	191,313
Finance Leased Assets	47,169	-	-	(31,438)	15,731
Game Stock	1,445,800	173,400	-	-	1,619,200
Infrastructure - Sewer	277,045,212	194,620	-	(13,133,107)	264,106,725
Infrastructure - Water	313,312,282	3,139,241	-	(22,409,495)	294,042,028
Work in progress	-	31,182,094	-	-	31,182,094
	1,227,638,727	**70,379,369**	**(882,958)**	**(69,478,340)**	**1,227,656,798**

Reconciliation of office equipment - 2010

	Opening balance	Additions	Depreciation	Total
Infrastructure Solid Waste - Land	33,419,863	-	-	33,419,863
Community Assets - Buildings	47,248,728	-	(1,873,289)	45,375,439
Plant and equipment	4,896,605	4,180,142	(761,214)	8,315,533
Furniture and equipment	983,685	167,749	(144,693)	1,006,741
Motor vehicles	6,586,078	-	(2,094,908)	4,491,170
Office equipment	3,491,973	2,844,451	(940,859)	5,395,565
Infrastructure - Roads	228,851,426	3,437,923	(18,843,088)	213,446,261
Community Assets - Land	90,655,163	-	-	90,655,163
Infrastructure Solid Waste - Buildings	105,421,828	-	(1,960,441)	103,461,387
Infrastructure - Electricity	135,187,162	-	(6,736,296)	128,450,866
Bins and Containers	2,134,958	-	(574,424)	1,560,534
Emergency Equipment	167,342	58,500	(16,100)	209,742
Finance leased assets	78,607	-	(31,438)	47,169
Game Stock	2,477,400	(1,031,600)	-	1,445,800
Infrastructure - Sewer	290,178,318	-	(13,133,106)	277,045,212
Infrastructure - Water	335,721,778	-	(22,409,496)	313,312,282
	1,287,500,914	**9,657,165**	**(69,519,352)**	**1,227,638,727**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Office Equipment (continued)

Assets subject to finance lease (Net carrying amount)

Office Equipment	15,731	47,169

The Municipality is required to measure the residual value of an item of property, plant and equipment. Management has determined that all of its infrastructural assets have not active market value, and the value of the amount at the end of its usefull life would be nil or insignificant. During the current financial year the Municipality reviewed the estimated usefull lifes and residual values of property, plant and equipment where appropriate.

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

5. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	679,035	-	679,035	655,747	-	655,747

Reconciliation of intangible assets - 2011

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	655,747	509,866	(486,578)	679,035

Reconciliation of intangible assets - 2010

	Opening balance	**Amortisation**	**Total**
Computer software	983,620	(327,873)	655,747

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Other financial assets

Loans and receivables		
Financial Instrument Sanlam Short-term Deposit	629,427	594,379
The long-term deposit at Sanlam is fixed and matures at at future date.		
Financial Instrument ABSA Short-term Deposit	120,628	553,306
The short-term deposit at ABSA is fixed and matures at a future date. The balance is represented by the following fixed deposits:		
ABSA 205 630 2408 R 0 (2011) R 15 678(2010)		
ABSA 205 189 9282 R 0 (2011) R 429 322(2010)		
ABSA 205 710 3524 R 120 627 (2011) R 108 305(2010)		
Listed Co-operative fund Insemnia - Long-term	43,004	43,004
The co-operative fund consist of 5 shares held in Insemnia.		
Unlisted Co-operative fund - Long-term	82,764	72,743
The unlisted investment consists of: 8 662 shares in Oos Vrystaat Kaap Operations Ltd. @ R6,12 (2010:5,14) 9 016 shares in Oos Vrystaat Kaap Holdings Ltd. @ R3,30 (2010:R3,13)		
Listed Investment Sanlam - Long-term	114,898	95,303
There are 4 196 listed shares held in Sanlam @ R27,56 in 2011 (2010:R22,86)		
	990,721	**1,358,735**

Non-current assets		
Loans and receivables	240,666	211,050
Current assets		
Loans and receivables	750,055	1,147,685
	990,721	**1,358,735**

Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

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

7. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

This is the second Post Retirment Medical Aid valuation performed for the Municipality by Deloitte and they are not connected to the municipality. There are no details on the liability disclosed prior to 30 June 2010.

The full actuarial valuation report is available on request.

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

The total in-service employees belonging to Medical Scheme as at 30 June 2011 were 43 (2010:47) and the total continuation employees receiving the medical aid benefit as at 30 June 2011 were 63 (2010:56).

Figures in Rand	2011	2010

7. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation	(25,580,112)	(21,400,326)

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

Opening balance	21,400,326	20,656,529
Net expense recognised in the statement of financial performance	4,180,416	743,797
	25,580,742	**21,400,326**

Net expense recognised in the statement of financial performance

Current service cost	420,639	390,772
Economic and Actuarial Assumptions	148,742	-
Interest cost	1,445,257	1,533,665
Fixed Subsidy	93,422	-
Curtailment or settlement	(1,218,231)	(1,180,640)
Medical Contribution Increases	1,266,815	-
Membership Changes	2,023,772	-
	4,180,416	**743,797**

Key assumptions used

The Post Retirement Medical Aid liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by-member basis, taking into account the liabilities arising in respect of principal members and their spouses. Ages are calculated as age last birthday on 30 June 2011.

The projected cost method was used as prescribed by IAS 19 (AC 116). The method is based on the approximation that the post-retirement benefit is notionally built up over the employees' working life.

The actuarial valuation of the Post Retirment Medical Aid liability involves the following:
- the projection of future post-retirement medical contribution subsidy cashflows, taking into account the probabilities of survival, withdrawal, ill-health retirement, early retirement and death in service
- the medical contribution subsidies arising in respect of adult dependants of employees
- increasing the projected subsidy cashflows in line with expected long term contribution escalation
- discounting these cashflows in order to express the Post Retirement Medical Aid liability in current Rand terms.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All Councillors and employees belong to 3 defined benefit retirment funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 is being finalised and will be submitted to the municipality once approved by the executive committee of the fund. Information could not be obtained for the other two funds regarding the administrators nor the actuaries.

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

8. Inventories

Consumable stores	889,358	393,027
Water	104,317	78,532
Fuel (Diesel, Petrol)	168,326	141,092
Chemicals	151,728	204,708
	1,313,729	**817,359**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Trade and other receivables from exchange transactions

Trade debtors	281,999,955	204,230,305
Debt Impairment	(230,192,284)	(115,477,790)
Other receivables	8,337	8,337
Bank errors	(51,349)	3,624
	51,764,659	**88,764,476**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	115,477,790	15,345,239
Provision for impairment	115,010,287	128,213,955
Amounts written off as uncollectible	(295,793)	(28,081,404)
	230,192,284	**115,477,790**

10. Other receivables from non-exchange transactions

Other receivables from non-exchange revenue	3,099,294	2,275,972

11. Consumer debtors

Fair value of consumer debtors

Consumer debtors	53,086,284	88,764,476

Refer to Annexure A for the disclosure of Debtors.

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R114,714,494 (2010: R 128,213,955) were impaired and provided for.

The amount of the provision was R 114,714,494 as of 30 June 2011 (2010: R 128,213,955).

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Other cash and cash equivalents	102,566	59,066
Cashbook Balance	(72,637,834)	(25,448,041)
	(72,535,268)	**(25,388,975)**
Current assets	102,566	59,066
Current liabilities	(72,637,834)	(25,448,041)
	(72,535,268)	**(25,388,975)**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
ABSA Bank - Cheque Account (Primary) - 405-289-8966 Bloemfontein	(2,681,253)	(9,181,389)	(5,343,780)	(72,597,538)	(25,427,904)	(50,908,268)
ABSA Bank - Cheque Account (Projects) - 100-001-0223 Bloemfontein	1,516	21,475	246,610	(40,296)	(20,137)	3,460,409
Total	**(2,679,737)**	**(9,159,914)**	**(5,097,170)**	**(72,637,834)**	**(25,448,041)**	**(47,447,859)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Other financial liabilities

	2011	2010
Held at amortised cost		
DBSA Loan 102229/61000488 The loan bears interest at a fixed rate of 5% per annum and interest on arrears at 7% per annum. The monthly installments were R136,197.75 over a period of 60 months or 5 years. The redemption date of the loan was 31 March 2011.	-	1,200,422
DBSA 100347/61000056 The loan bears interest at a fixed rate of 14.5% per annum and interest on arrears at 16.5% per annum. The monthly installments are R517,222.94 over a period of 180 months or 15 years. There are 117 months remaining. The loan will be redeemed on 31 March 2021.	32,272,928	33,683,848
INCA Loan 1264 The loan bears interest at a rate of 14.52% per annum. The monthly installments are R114,870.41 over a period of 120 months. There are 25 months remaining. The loan will be redeemed on 31 July 2013.	2,477,001	3,434,023
INCA Loan 2813 The loan bears interest at a rate of 14% compounded monthly. The monthly installments are R46,914.40 over a period of 120 months. There are 29 months remaining. The loan will be redeemed on 30 November 2013.	1,148,060	1,521,306
	35,897,989	**39,839,599**

	2011	2010
Non-current liabilities		
At amortised cost	32,762,574	37,275,741
Current liabilities		
At amortised cost	3,135,415	2,563,858
	35,897,989	**39,839,599**

	2011	2010
Fair value of the financial liabilities carried at amortised cost		
Bank loans	35,897,988	39,839,599

The fair values of the financial liabilities were determined by using the valuation as done by the relevant institutions who has external credit ratings.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Finance lease obligation

Minimum lease payments due		
- within one year	21,000	42,000
- in second to fifth year inclusive	-	21,000
	21,000	63,000
less: future finance charges	(745)	(5,824)
Present value of minimum lease payments	**20,255**	**57,176**

Present value of minimum lease payments due		
- within one year	20,255	36,921
- in second to fifth year inclusive	-	20,255
	20,255	**57,176**

Non-current liabilities	-	20,255
Current liabilities	20,255	36,921
	20,255	**57,176**

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

The average lease term was 5 years and the average effective borrowing rate was 13% (2010: 13%).

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	9,716,000
COGTA Grant	5,701,140	-
	5,701,140	**9,716,000**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the entity has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Rehabilitation Dumping Site	429,300	102,600	-	531,900
Environmental Rehabilitation	18,500,000	-	(1,500,000)	17,000,000
	18,929,300	**102,600**	**(1,500,000)**	**17,531,900**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Reversed during the year	Total
Rehabilitation Dumping Site	1,796,845	-	(1,367,545)	429,300
Environmental Rehabilitation	7,500,000	11,000,000	-	18,500,000
	9,296,845	**11,000,000**	**(1,367,545)**	**18,929,300**

The new dumping site became operational on 1 December 2010 as the old dumping site was closed and is still in the process of being re-habilitated. On a monthly basis the site is filled with approximately 13 212 cubic meters of cover material, garden waste, industrial waste and building rubble. The provision for the rehabilitation of the landfill site was calculated by the Municipality and it is based on the implementation costs of an environmental impact assessment. The provision for the rehabilitation of the regional Bethlehem landfill site was estimated at R17 000 000 with an escalation of 6% per annum. Proper management of the site will increase the number of years of operation and will ensure that environmental compliance is adhered to. The timing of the cashflow is uncertain.

The provision for the clearing of illegal dumping sites were calculated by the Municipality on a basis of machinery and man hours needed to clear the dumping sites. The timing of the cashflow is uncertain.

17. Trade and other payables from exchange transactions

	2011	2010
Trade payables	35,164,741	27,945,523
Accrued leave pay	9,122,218	7,560,983
Accrued bonus	3,258,210	2,624,347
Deposits received	(14,207)	(17,059)
Suspense accounts	24,235,164	16,132,596
	71,766,126	**54,246,390**

Fair value of trade and other payables

	2011	2010
Trade payables	71,766,126	54,246,393

18. VAT payable

	2011	2010
VAT Receivable	(7,750,852)	(2,688,630)
Debtors VAT accrued	21,236,704	14,399,170
	13,485,852	**11,710,540**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Revenue

Rendering of services	1,583,499	1,123,843
Property rates	53,271,317	52,074,194
Service charges	202,885,493	175,961,990
Sale of housing	62,327	29,070
Rental of facilities and equipment	2,810,164	3,525,265
Interest received – trading	13,693,209	12,381,085
Fines	204,758	251,160
Licences and permits	39,325	33,987
Government grants and subsidies	146,100,018	115,541,926
	420,650,110	**360,922,520**

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

Rendering of services	1,583,499	1,123,843
Service charges	202,885,493	175,961,990
Sales of housing	62,327	29,070
Rental of facilities & equipment	2,810,164	3,525,265
Interest received – trading	13,693,209	12,381,085
Licences and permits	39,325	33,987
	221,074,017	**193,055,240**

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

Taxation revenue		
Property rates	53,271,317	52,074,194
Fines	204,758	251,160
Transfer revenue		
Government Grants and Subsidies	146,100,018	115,541,926
	199,576,093	**167,867,280**

20. Property Rates

Rates Billed

Property rates	53,271,317	52,074,194

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.0055% is applied to residential property valuations and 0.016% to business and state-owned properties to determine the assessment rates. Rebates of 25% are granted to pensioners and 75% to Agriculural owners.

21. Service charges

Sale of electricity	101,318,726	84,154,702
Sale of water	37,786,932	33,009,641
Sewerage and sanitation charges	33,112,660	30,563,034
Refuse removal	30,667,175	28,234,613
	202,885,493	**175,961,990**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. Government grants and subsidies

Equitable share	101,000,866	82,204,781
Municipal Infrastructure Grant	35,459,000	30,450,000
National Roads Subsidy Grant	17,100	17,100
Councillors Remuneration Grant	2,055,997	1,620,045
DWAF Grant	1,318,195	-
Municipal Systems Improvement Grant	1,950,000	1,250,000
COGTA Grant	4,298,860	-
	146,100,018	**115,541,926**

Equitable Share

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

Equitable Share - Indigents and Free Basic Electricity

Current-year receipts	101,000,866	82,204,481
Conditions met - transferred to revenue	(101,000,866)	(82,204,481)
	-	-

The Equitable Share Allocation was fully utilised.

Finance Support Grant

Current-year receipts	1,950,000	1,250,000
Conditions met - transferred to revenue	(1,950,000)	(1,250,000)
	-	-

The Finance Support Grant was fully utilised during the year.

National Roads Subsidy Grant

Current-year receipts	17,100	17,100
Conditions met - transferred to revenue	(17,100)	(17,100)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	9,716,000	2,699,000
Current-year receipts	25,743,000	30,450,300
Conditions met - transferred to revenue	(35,459,000)	(30,450,300)
Unspent	-	7,017,000
	-	**9,716,000**

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Councillors Remuneration Grant

Current-year receipts	2,055,997	1,620,045
Conditions met - transferred to revenue	(2,055,997)	(1,620,045)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. Government grants and subsidies (continued)

Department of Water Affairs Grant

Current-year receipts	1,318,195	-
Conditions met - transferred to revenue	(1,318,195)	-
	-	**-**

Municipal Systems Improvement Grant

Current-year receipts	1,950,000	1,250,000
Conditions met - transferred to revenue	(1,950,000)	(1,250,000)
	-	**-**

COGTA Grant

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(4,298,860)	-
	5,701,140	**-**

Conditions still to be met - remain liabilities (see note 15).

The unspent portion of the grant received from COGTA will be utilised to upgrade the sport stadium.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. General expenses

Loss on sale of Fixed Assets	841,775	-
Advertising	602,237	513,495
Repairs and Maintenance	2,730,024	1,116,759
Auditors remuneration	2,879,636	2,574,112
Bank charges	1,099,563	1,060,057
Best practice for Councillors	407,647	198,638
Bursaries	1,700	669,951
Capital Expenditure	4,133,298	3,074,403
Chemicals	1,467,507	368,406
Civic Funerals	1,260	110,307
Cleaning	-	14,945
Community development and training	4,903,803	4,524,054
Consulting and professional fees	15,677,815	15,699,134
Consumables	31,053	1,903,124
Donations	494,675	680,264
Entertainment	1,922,206	1,646,485
Fines and penalties	475,429	1,513,476
Fleet	10,704	30,183
Hire	1,194,384	1,509,809
Electricity Cost	4,736,830	4,261,523
Insurance	3,054,783	2,838,295
Lease rentals on operating lease	3,491	658
Magazines, books and periodicals	51,913	27,979
Marketing	41,677	1,090,001
Other expenses	453	(288)
Pauper Burials	129,472	48,751
Postage and courier	923,333	769,997
Printing and stationery	658,727	1,046,502
Productions	-	4,500
Promotions and sponsorships	438,834	441,362
Public Participation	294,084	297,258
Refuse	-	(350)
Rehabilitation of Dumping Site	5,252,570	3,063,486
Rehabilitation of Landfill Site	(1,500,000)	11,000,000
Royalties and license fees	337,135	335,004
Economic and Actuarial Assumptions	3,532,121	-
Security (Guarding of municipal property)	5,294,611	3,449,235
Staff welfare	207,330	256,857
Subscriptions and membership fees	1,268,440	1,120,473
Telephone and fax	2,203,357	1,919,717
Town Planning Cost	46,000	(22,807)
Training	556,099	142,631
Transport and freight	8,355,277	8,167,485
Travel and subsistence	1,002,271	780,557
Travel and subsistence - Councillors	283,822	172,799
Uniforms	1,078,000	978,763
Valuation Cost	239,615	2,880,430
	77,364,961	**82,278,420**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. Employee related costs

Basic	77,303,616	61,130,171
Bonus	7,015,286	4,994,084
Car allowance	3,631,826	3,295,408
Group Life Insurance	141,564	107,983
Housing benefits and allowances	341,588	376,853
Leave pay provision charge	3,173,719	2,722,531
Medical aid - company contributions	8,599,418	6,552,306
Acting Allowances	219,606	216,701
Other Allowances	808,430	2,184,400
Other payroll levies	40,545	31,988
Overtime payments	3,939,236	2,433,848
Pension Fund Contributions	14,148,694	10,847,339
Post-employment benefits - Medical Aid - Defined contribution plan	3,252,682	1,903,009
Standby allowances	3,125,488	2,100,463
Telephone Allowance	272,109	212,509
UIF	869,628	621,604
	126,883,435	**99,731,197**

Remuneration of Municipal Manager

Annual Remuneration	751,273	390,022
Car Allowance	296,175	134,556
Contributions to UIF, Medical and Pension Funds	146,669	39,587
Leave Pay Out	-	212,601
Cellphone Allowance	18,000	9,000
	1,212,117	**785,766**

Remuneration of Chief Finance Officer

Annual Remuneration	218,251	-
Car Allowance	72,917	-
Contributions to UIF, Medical and Pension Funds	3,451	-
Other	4,000	-
	298,619	**-**

The post of the Chief Finance Office was vacant for the 2010 financial year.

Mr R Provis was appointed as the CFO from 1 March 2011.

Director of Public Works

Annual Remuneration	218,251	46,625
Car Allowance	72,917	15,583
Contributions to UIF, Medical and Pension Funds	3,305	695
Cellphone Allowance	4,000	1,000
	298,473	**63,903**

Mr A Masuku was appointed as Director Public Works from 1 March 2011.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. Employee related costs (continued)

Director Corporate Services

Annual Remuneration	697,768	556,588
Car Allowance	233,088	185,988
Acting Allowance	-	75,563
Contributions to UIF, Medical and Pension Funds	11,218	8,592
Leave Pay Out	97,324	-
Cellphone Allowance	12,000	11,000
	1,051,398	**837,731**

Director Community Services

Annual Remuneration	-	373,002
Car Allowance	-	124,667
Contributions to UIF, Medical and Pension Funds	-	3,597
Leave Pay Out	-	156,831
Cellphone Allowance	-	8,000
	-	**666,097**

The position was vacant from 26 November 2009 to 30 June 2011.

Director of Local Economic Development

Annual Remuneration	701,742	607,188
Car Allowance	234,413	202,895
Contributions to UIF, Medical and Pension Funds	10,876	8,981
Cellphone Allowance	12,000	12,000
Leave Pay Out	44,880	59,840
	1,003,911	**890,904**

25. Remuneration of councillors

Mayor	445,114	432,200
Travel Allowance - Mayor	148,371	144,069
Cellphone Allowance - Mayor	17,767	17,100
Speaker	356,836	345,765
Travel Allowance - Speaker	118,946	115,255
Cellphone Allowance - Speaker	17,767	17,100
Councillors and Executive Committee Members	5,242,917	4,856,111
Travel Allowance - Councillors and Executive Committee Members	1,759,175	1,618,692
Cellphone Allowance - Councillors and Executive Committee Members	333,580	371,530
	8,440,473	**7,917,822**

26. Debt impairment

Contributions to debt impairment provision	115,009,420	128,213,955

27. Interest Received - Investments

Interest revenue		
Interest Received - ABSA	54,386	44,040
Discounting of Revenue	2,622,931	-
	2,677,317	**44,040**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Fair value adjustments

Other financial assets		
• Loans and Receivables	64,784	30,950

29. Depreciation and amortisation

Office Equipment	4,281,037	4,532,200
Infrastructure Assets	65,683,879	65,315,028
	69,964,916	**69,847,228**

30. Impairment of assets

31. Finance costs

Trade and other payables	1,401,545	(231,329)
Finance leases	-	37,774
Fair value adjustments on payables	1,846,096	-
Interest Paid External Loans	7,746,352	6,509,561
	10,993,993	**6,316,006**

32. Auditors' remuneration

Fees	2,879,636	2,574,112

33. Operating lease

Describe the lessee’s significant leasing arrangements which include:

- basis on which contingent rent payable is determined.
- the existence and terms of renewal or purchases options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.

The Municipality rents out its properties to consumers. Contracts are intially for one year and thereafter the contract continues on a monthly basis. The accounting for operating lease income in accordance with Circular 12/06 will therefore be the same and there is no need for adjusting the income received from the renting of properties.

34. Rental of facilities and equipment

Premises		
Rental of Premises	2,610,503	3,202,068
Venue hire	5,499	-
	2,616,002	**3,202,068**
Facilities and equipment		
Rental of equipment	194,162	323,197
	2,810,164	**3,525,265**

35. Contracted Services

Meter Reading services	1,946,477	1,319,356

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

36. Grants and subsidies paid

Other subsidies		
Indigents - Council contribution	5,301,504	9,365,512

37. Bulk purchases

Electricity	86,498,577	56,866,979

38. Cash generated from operations

Deficit	(96,373,881)	(110,103,927)
Adjustments for:		
Depreciation and amortisation	69,964,916	69,847,228
Gain (loss) on sale of assets and liabilities	625,834	(9,126,743)
Fair Value Adjustment - Game Stock	(173,400)	1,031,600
Fair value adjustment Investments	(64,784)	(30,950)
Finance costs - Finance leases	-	37,774
Interest income	-	(67,776)
Debt impairment	115,009,420	128,213,955
Movements in retirement benefit assets and liabilities	4,179,786	743,797
Movements in provisions	(1,397,400)	9,632,455
Changes in working capital:		
Inventories	(496,370)	2,032,409
Trade and other receivables from exchange transactions	36,999,817	69,984,025
Other receivables from non-exchange transactions	(823,322)	(1,671,590)
Consumer debtors	(115,009,420)	(128,213,955)
Prepayments	1,183,455	(1,183,455)
Trade and other payables from exchange transactions	17,519,735	23,841,728
VAT	461,696	11,233,933
Unspent conditional grants and receipts	(4,014,860)	7,017,000
	27,591,222	**73,217,508**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure assets	74,612,347	56,201,765

Figures in Rand	2011	2010

39. Commitments (continued)

This committed expenditure relates to infrastructure assets and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated.

The following contracts have already been awarded and the Municipality is committed on spending the remaining funds:

Project Number: MIG/FS/R,ST/09/11.
Project Description: Fateng-tse-Ntsho - Upgrading of gravel roads with storm water.
Project Value: R 7 485 810
Remaining Funding: R 3 031 391

Project Number: MIG/FS0710/R,ST/09/13
Project Description: Bohlokong / Bethlehem - New paved roads.
Project Value: R40 000 000
Remaining Funding: R33 770 188

Project Number: MIG/FS/4568/08/09
Project Description: Clarens - Waste water treatment works.
Project Value: R12 000 000
Remaining Funding: R 7 499 819

Project Number: MB/RS/2009/02.03.05
Project Description: Fateng-tse-Nstho - Upgrading of internal roads.
Project Value: R13 000 000
Remaining Funding: R 5 269 941

Project Number:
Project Description: Clarens - Upgrading of internal roads.
Project Value: R 3 000 000
Remaining Funding: R 1 289 836

Project Number:
Project Description: Panorame East - Upgrading of roads.
Project Value: R 2 000 000
Remaining Funding: R 1 855 919

Project Number: MIG/FS051/CF/07/08
Project Description: Bohlokong - New community hall.
Project Value: R26 000 000
Remaining Funding: R 9 000 000

Project Number: MIG/FS/0179/6/7
Project Description: Mashaeng Fouriesburg - 2.7 km storm water disposal
Project Value: R 1 017 398
Remaining Funding: R 252 493

Project Number: MIG/FS/R/5845/09/10
Project Description: Dihlabeng Mautse - Upgrading of gravel road with storm water.
Project Value: R 4 142 760
Remaining Funding: R 4 142 760

Project Number:
Project Description: Rosendal Mautse - Upgrading of boreholes and water treatment plant.
Project Value: R 1 500 000
Remaining Funding: R 1 500 000

Project Number:
Project Description: Mashaeng / Fouriesburg - abstraction of raw water.
Project Value: R 3 000 000
Remaining Funding: R 3 000 000

Notes to the Annual Financial Statements

39. Commitments (continued)

Project Number:	
Project Description:	Bohlokong - Upgrading of new tennis courts.
Project Value:	R 2 000 000
Remaining Funding:	R 2 000 000

Project Number:	
Project Description:	Mashaeng / Fouriesburg - Upgrading of roads.
Project Value:	R 2 000 000
Remaining Funding:	R 2 000 000

Figures in Rand	2011	2010

40. Contingencies

The following civil cases are currently in process of being finalised:

G D van Zyl:
The case is handled by Breytenbach Mavuso Attorneys and is regarding the sale of a site in Fouriesburg to Mr van Zyl on the site a municipal pump station is erected and no servitude is registered. The liability could be R150 000.

Thabo Mofutsanyana District Municipality:
The case is handled by Breytenbach Mavuso Attorneys. Breytenbach Mavuso is acting for a lot of defendants against Thabo Mofutsanyana. In the trial case the Judge has given judgment against Thabo Mofutsanyana on our exception. They are now trying to appeal in this matter so we are waiting to see what will happen. No liability at this stage. National Treasury indicated that they will intervene in this matter but no further response was received.

Mr J Prinsloo (Electrician Section):
The case is handled by Breytenbach Mavuso Attorneys. In this case the employee was injured on duty and the Department of Labour referred the matter to court to establish negligence. Liability can not be established.

New Municipal Buildings:
A building was purchased for R 14 000 000 to be used as Municipal Offices but due to contractual disagreements there is a possible liability of which the outcome can not be reliably determined.

Bibi Cash and Carry Supermarket (Pty) Ltd:
This case is handled by Breytenbach Mavuso and is regarding the lodging of a high court application to nullify the sales agreement.

MM Mahlalela:
This case is handled by Breytenbach Mavuso. Mr Mahlalela the previous Chief Financial Officer in his last week at work reported that his laptop got lost and then the Municipal Manager was of the opinion that Mr Mahlalela was negligent and that the cost of the laptop must be recovered. Possible liability if lost is R13 000.

Apex Entertainment:
This case is handled by Breytenbach Mavuso. An amount of R60 100 was paid to Apex Entertainment and no services was delivered. No liability for the Council.

Princeley Knowledge Consulting:
This case is handled by Breytenbach Mavuso. A payment of R35 640 was made to this company for a training course. The funds were paid to this company but on several occasions the training was postponed. No liability for the Council.

Aurecon Consultants:
This case is handled by Breytenbach Mavuso. The consultants were involved in two projects - Mashaeng/Fouriesburg: Upgrading of bulk water supply and Mashaeng/Fouriesburg: 5,9km roads. The funds were paid to the consultants and the projects are not functional or finalised. No liability for the Council.

Skosana Consulting Engineers:
This case in handled by Breytenbach Mavuso. The consultants were involved in two projects - Mashaeng/Fouriesburg: Upgrading of bulk water supply and Mashaeng/Fouriesburg: 5,9km roads. The funds were paid to the consultants and the projects are not functional or finalised. No liability for the Council.

E and R Maintenance and Erection CC:
This case in handled by Breytenbach Mavuso. The consultants were involved in two projects - Mashaeng/Fouriesburg: Upgrading of bulk water supply and Mashaeng/Fouriesburg: 5,9km roads. The funds were paid to the consultants and the projects are not functional or finalised. No liability for the Council.

Nexor 350 CC (Contractors):
This case in handled by Breytenbach Mavuso. The consultants were involved in two projects - Mashaeng/Fouriesburg: Upgrading of bulk water supply and Mashaeng/Fouriesburg: 5,9km roads. The funds were paid to the consultants and the projects are not functional or finalised. No liability for the Council.

Marenza Civils and Kwena Ya Madiba (JV) Contractors:
This case in handled by Breytenbach Mavuso. The consultants were involved in two projects - Mashaeng/Fouriesburg:

40. Contingencies (continued)
Upgrading of bulk water supply and Mashaeng/Fouriesburg: 5,9km roads. The funds were paid to the consultants and the projects are not functional or finalised. No liability for the Council.

White Hazy JV:
The case is handled by Breytenbach Mavuso. This contractor was involved in the Water and Sewer Reticulation: Bohlokong Extension 7 and 8 project. The funds were paid to the contractor and the project is not functional or finalised. No liability for the Council.

MOT Professional Services Consulting:
The case is handled by Breytenbach Mavuso. This contractor was involved in the Water and Sewer Reticulation: Bohlokong Extension 7 and 8 project. The funds were paid to the contractor and the project is not functional or finalised. No liability for the Council.

GT Enslin and ZT Enslin:
This case is handled by Symington and De Kok Attorneys, Bloemfontein and is regarding a motor accident claim fo Mr GT Enslin and ZT Enslin to the amount of R872 381. There is a possible liability for the Council of approximately R872 381.

Shabbas Business Services CC:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a pavement management system that was done by the company and they claim that the council owe them R1,1 million.

ET Majosi:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a claim for a bus accident on 1 May 2003 that occurred at the Saulspoort Dam. Possible liability for the Council is approximately R154 767.

Mr NJ Khomo:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a motor accident claim of Mr NJ Khomo to the amount of R22 520. Possible liability for the Council is approximately R22 520.

Little Meade No 52:
This case is handled by Human, Le Roux and Meyerowitz Attorneys and is regarding signing of transfer documents for erf 3856, Panorama East, Bethlehem. Possible liability for the Council is approximatley R21 087.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

41. Prior period errors

The effect of the prior period errors is disclosed in Annexure B.

42. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated surplus of R1,045,975,041 and that the municipality's total assets exceed its liabilities by R1,045,975,041.

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.

43. Fruitless and wasteful expenditure

Interest paid on Bank Account / Creditors	-	299,082
Interest paid on Eskom account	1,265,092	1,101,179
Penalty Interest on Arrears on DBSA and INCA Loans	804,796	338,915
Penalties and Interest Paid on VAT	-	282,097
	2,069,888	**2,021,273**

44. Irregular expenditure

Details of irregular expenditure – 2010

	Effect on the Financial Statements	
Tenders for payments above R200 000 were not available for inspection.	Upgrading of Fateng Stadium is affecting additions to Community Assets Recreational Facilities.	9,181,132
Tenders for payments above R200 000 were not available for inspection.	Upgrading of Cemeteries is affecting additions to Community Assets Recreational Facilities.	4,439,640
Tenders for payments above R200 000 were not available for inspection.	Upgrade of Internal Roads in Fateng is affecting addtions to Infrastructure Roads.	3,434,994
Tenders for payments above R200 000 were not available for inspection.	Unit stand and access card is affecting additions to Office Equipment.	475,000
Tenders for payments above R200 000 were not available for inspection.	Electronic rev counter is affecting additions to Office Equipment.	289,754
Tenders for payments above R200 000 were not available for inspection.	Payment for services rendered in respect of the recovery of VAT not previously claimed is affecting Service Provider fees.	1,102,119
Tenders for payments above R200 000 were not available for inspection.	Upgrading of Roads in Clarens is affecting additions to Infrastructure Roads.	596,860
Tenders for payments above R200 000 were not available for inspection.	Upgrade of roads in Fouriesburg and Rehabilitation of Dumping sites is affecting Infrastructure Roads and Expenditure.	6,690,588
		26,210,087

45. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	879,215	284,217
Current year subscription / fee	1,919,408	2,536,080
Amount paid - current year	(2,798,623)	(1,941,082)
	-	**879,215**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

PAYE and UIF

Current year subscription / fee	13,451,101	10,619,264
Amount paid - current year	(12,137,488)	(10,619,264)
	1,313,613	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	35,831,753	27,836,068
Amount paid - current year	(32,758,220)	(27,836,068)
	3,073,533	**-**

VAT

VAT payable	13,485,854	13,024,158

VAT output payables and VAT input receivables are shown in note 15.

VAT returns have been submitted late throughout the year.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

Councillors' arrear consumer accounts

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

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
TJ Seekane	693	4,327	5,020
M Prior	8,001	29,769	37,770
TJ Tseki	860	15,371	16,231
PR Mofokeng	2,064	15,903	17,967
TL Mofokeng	694	2,316	3,010
DBL Venter	1,492	-	1,492
JJH Pienaar	5,068	11,377	16,445
TA Masoeu	976	9,911	10,887
PHJ Olivier	7,470	14,526	21,996
MJ Mokoena	786	9,826	10,612
PP Mokoena	771	1,960	2,731
TV Mofokeng	693	1,970	2,663
MK Mofokeng	1,071	23,457	24,528
PA Maasdorp	1,498	517	2,015
PT Ramaele	742	4,681	5,423
MR Mokoena	997	24,065	25,062
PD Lengoabala	12,103	193,314	205,417
ME Sempe	1,295	9,737	11,032
LJ Lemako	658	1,088	1,746
AM Noosi	2,934	484	3,418
MA Mokoena	1,607	26,844	28,451
	52,473	**401,443**	**453,916**

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

30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
D Stevens	5,996	2,388	8,384
HT Mofokeng	1,869	3,553	5,422
S Motsoeneng	1,872	36,079	37,951
AL Mashinini	2,506	38,978	41,484
E Mokoena	612	1,159	1,771
MS Maseko	1,191	5,137	6,328
J Tshabalala	817	1,633	2,450
G Mofokeng	731	1,846	2,577
BJ Mofokeng	2,440	8,207	10,647
P Jacobs	1,653	816	2,469
BDL Hatta	1,921	47,652	49,573
E Kongoana	988	22,314	23,302
S Mofokeng	1,016	16,145	17,161
S Msimanga	640	33	673
J Mofokeng	620	1,393	2,013
MD Bukhali	382	8,497	8,879
P Changube	656	4,357	5,013
LJ Wanzi	782	1,828	2,610
L Lemako	598	469	1,067
E Mkhwanazi	4,521	16	4,537
J Mashinini	1,516	10,714	12,230
LJ Lemako	2,923	3,084	6,007
	36,250	**216,298**	**252,548**

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

30 June 2011	Highest outstanding amount	Aging (in days)
PD Lengoabala	193,314	120
PHJ Olivier	14,526	120
JJH Pienaar	11,377	120
TV Mofokeng	1,970	120
M Prior	29,769	120
MR Mokoena	24,065	120
TA Masoeu	9,911	120
TJ Tseki	15,371	120
MA Mokoena	26,844	120
PR Mofokeng	15,903	120
MJ Mokoena	9,826	120
ME Sempe	9,737	120
TJ Seekane	4,327	120
MA Noosi	484	120
PP Mokoena	1,960	120
TL Mofokeng	2,316	120
LJ Lemako	1,088	120
MK Mofokeng	23,457	120
PA Maasdorp	517	90
PT Ramaele	4,681	120
	401,443	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

30 June 2010	Highest outstanding amount	Aging (in days)
BDL Hatta	49,573	120
AL Mashinini	41,484	120
S Motsoeneng	37,951	120
EST Kongoana	23,302	120
S Mofokeng	17,161	120
J Mashinini	12,230	120
BJ Mofokeng	10,647	120
MD Bukhali	8,879	120
D Stevens	8,384	120
M Maseko	6,328	120
LJ Lemako	6,007	120
HT Mofokeng	5,422	120
P Changube	5,013	120
E Mkhwanazi	4,537	120
LJ Wanzi	2,610	120
GEO Mofokeng	2,577	120
P Jacobs	2,469	120
J Tshabalala	2,450	120
J Mofokeng	2,013	120
E Mokoena	1,771	120
L Lemako	1,067	120
S Msimanga	673	90
	252,548	**-**

Appendice's A to G