



**Ndlambe Municipality**  
**Annual Financial Statements**  
**for the year ended 30 June 2010**

Issued 31 August 2010

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

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### Abbreviations

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

The annual financial statements set out on pages 2 to 53, which have been prepared on the going concern basis, were approved on the 31 August 2010 and were signed by:

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**Adv R Dumezweni**  
**Municipal Manager**

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	486 027	540 053
Trade and other receivables from non-exchange transactions	3	1 637 921	1 885 761
Trade and other receivables from exchange transactions	4	24 772 545	33 994 450
Cash and cash equivalents	5	14 623 958	13 416 181
Investments	6	724 958	472 723
		<b>42 245 409</b>	<b>50 309 168</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	7	65 867 197	30 628 859
<b>Total Assets</b>		<b>108 112 606</b>	<b>80 938 027</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits	8	1 413 870	1 297 977
Trade and other payables	9	12 034 179	8 655 693
Unspent conditional grants and receipts	10	23 879 629	19 441 619
VAT payable	31	4 942 399	3 724 497
Bank overdraft	5	-	232 074
Current portion of non-current DBSA liabilities		2 585 021	2 086 564
		<b>44 855 098</b>	<b>35 438 424</b>
<b>Non-Current Liabilities</b>			
Financial liabilities - DBSA	11	33 222 805	35 879 947
Retirement benefit obligation	13	41 505 723	37 242 947
		<b>74 728 528</b>	<b>73 122 894</b>
<b>Total Liabilities</b>		<b>119 583 626</b>	<b>108 561 318</b>
<b>Net Assets</b>		<b>(11 471 020)</b>	<b>(27 623 291)</b>
<b>Net Assets</b>			
Accumulated surplus		(11 471 020)	(27 623 291)

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue	14	192 664 052	152 869 840
Other income		2 711 741	2 076 978
Operating expenses		(178 415 786)	(141 860 615)
<b>Operating surplus</b>		<b>16 960 007</b>	<b>13 086 203</b>
Investment revenue	22	5 758 129	3 513 987
Fair value adjustments	23	252 235	-
Finance costs	24	(6 926 513)	(5 780 953)
<b>Surplus for the year</b>		<b>16 043 858</b>	<b>10 819 237</b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2008</b>	<b>(41 070 278)</b>	<b>(41 070 278)</b>
Changes in net assets		
Changes in accounting policy	2 627 750	2 627 750
Net income (losses) recognised directly in net assets	2 627 750	2 627 750
Surplus for the year	10 819 237	10 819 237
Total recognised income and expenses for the year	13 446 987	13 446 987
Total changes	13 446 987	13 446 987
<b>Balance at 01 July 2009</b>	<b>(27 623 291)</b>	<b>(27 623 291)</b>
Changes in net assets		
Surplus for the year	16 043 858	16 043 858
Unbundling of funds	108 413	108 413
Total changes	16 152 271	16 152 271
<b>Balance at 30 June 2010</b>	<b>(11 471 020)</b>	<b>(11 471 020)</b>
Note(s)		

# Ndlambe Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2010	2009
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		113 527 060	151 512 798
Grants		77 326 667	49 306 621
Interest income		5 757 402	3 513 987
Dividends received		727	-
		<u>196 611 856</u>	<u>204 333 406</u>
<b>Payments</b>			
Employee costs		(64 148 804)	(54 924 466)
Suppliers		(73 133 678)	(74 036 147)
Finance costs		(6 926 513)	(5 780 953)
Other payments		(14 811 176)	(74 834 885)
		<u>(159 020 171)</u>	<u>(209 576 451)</u>
<b>Net cash flows from operating activities</b>	28	<b><u>37 591 685</u></b>	<b><u>(5 243 045)</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(35 238 338)	(31 486 323)
Proceeds from sale of property, plant and equipment	7	1 245 189	-
Proceeds from sale of financial assets		252 235	-
Purchase of investments		(252 235)	(472 723)
		<u>(33 993 149)</u>	<u>(31 959 046)</u>
<b>Cash flows from financing activities</b>			
Repayment of financial liabilities - dbsa		(2 657 142)	6 356 725
Current borrowings net proceeds		498 457	2 086 564
		<u>(2 158 685)</u>	<u>8 443 289</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1 439 851</b>	<b>(28 758 802)</b>
Cash and cash equivalents at the beginning of the year		13 184 107	41 942 909
<b>Cash and cash equivalents at the end of the year</b>	5	<b><u>14 623 958</u></b>	<b><u>13 184 107</u></b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003). These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period, except for the changes set out in note 29 Changes in accounting policy

#### 1.1 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by 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.

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, 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 property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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

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

Item	Average useful life
Land	Indefinite
Buildings	50 Years
Plant and machinery	3-10 Years
Furniture and fixtures	5-10 Years
Motor vehicles	3-7 Years
Office equipment	3-5 Years
IT equipment	3 Years
Computer software	3 Years
Infrastructure	20- 80 Years
Community	10-30 Years
Specialised vehicles	10-15 Years
Wastewater network	80 Years
Water network	50 Years

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

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

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

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

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

### Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 7. The transitional provision expires on 30 June 2012.

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

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

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

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.2 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 or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. 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 at each reporting date.

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

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

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

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 years

Intangible assets are derecognised:

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

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

### Transitional provision

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

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.2 Intangible assets (continued)

beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 30 June 2012.

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

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

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

### 1.3 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables
- Financial liabilities measured at amortised cost

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

#### Initial recognition and measurement

Financial instruments are recognised initially when the 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.

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

#### 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 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.

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Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.3 Financial instruments (continued)

#### 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.

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

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 receivables are classified as loans and receivables.

#### Trade and other payables

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

#### Cash and cash equivalents

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

#### Bank overdraft and borrowings

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

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.3 Financial instruments (continued)

- 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.

### 1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Other leases are classified as operating leases.

#### 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.

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.5 Inventories

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

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

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

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.5 Inventories (continued)

inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

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

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

Useful life is either:

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

### Identification

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

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

### Value in use

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

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

### Basis for estimates of future cash flows

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# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

#### Reversal of impairment loss

The 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, the entity estimates the recoverable amount of that asset.

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

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

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

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

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

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

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss

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

been recognised for the asset in prior periods.

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

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

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

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

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

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

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

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

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

Useful life is either:

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

### Identification

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

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

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

### Value in use

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

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

#### Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services

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the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

### Reversal of an impairment loss

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

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

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

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

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

### Redesignation

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

## 1.8 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 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.

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### 1.8 Employee benefits (continued)

#### Defined benefit plans

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

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

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

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

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

### 1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the 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.

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### 1.9 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

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.

### Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

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

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

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

### 1.10 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.6 and 1.7. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

Extended periods is periods that exceeds X months.

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Annual Financial Statements for the year ended 30 June 2010

## Accounting Policies

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### 1.10 Borrowing costs (continued)

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

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

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

### 1.11 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 / Held to maturity investments and/or loans and receivables

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

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

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

#### 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 - Provisions.

#### 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.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

#### 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.

### 1.12 Investment property

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### 1.12 Investment property (continued)

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 or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years
Lifts	20 years
Air-conditioners	5 years
Other components	x years

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

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

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

#### Transitional provision

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

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

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## Accounting Policies

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### 1.12 Investment property (continued)

- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

### 1.13 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

### 1.14 Interest in joint ventures

### 1.15 Investments in associates

### 1.16 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

#### 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.

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### 1.16 Revenue from exchange transactions (continued)

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

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

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

### Interest, royalties and dividends

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

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

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

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

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

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets..

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

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

### 1.18 Investment income

# Ndlambe Municipality

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### 1.18 Investment income (continued)

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

### 1.19 Comparative figures

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

### 1.20 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.

### 1.21 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.

### 1.22 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, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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 or accounting authority 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.

### 1.23 Use of estimates

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Annual Financial Statements for the year ended 30 June 2010

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### 1.23 Use of estimates (continued)

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its 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.

### 1.24 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.25 Offsetting

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

### 1.26 Housing development fund

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

### 1.27 Revaluation reserve

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

### 1.28 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.

### 1.29 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.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>2. Inventories</b>		
Electricity	154 464	176 511
Water	74 854	101 882
Stores, materials and fuels	256 709	261 660
	<b>486 027</b>	<b>540 053</b>
<b>Inventory pledged as security</b>		
No inventory was pledged as security.		
<b>3. Trade and other receivables from non-exchange transactions</b>		
Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Grants suspense	1 186 544	-
Government subsidies	1 532 482	1 488 766
Recoverable fruitless and wasteful expenditure	119 058	119 058
Provision for bad debts	(1 478 100)	-
	<b>1 637 921</b>	<b>1 885 761</b>
<b>4. Trade and other receivables from exchange transactions</b>		
<b>Gross balances</b>		
Rates	14 613 200	10 427 341
Electricity	5 829 667	4 015 857
Water	25 869 349	21 160 067
Waste water	310 847	214 880
Sewerage	8 499 517	7 044 047
Refuse	9 808 928	8 385 484
Housing rental	1 688 215	1 612 722
Service charges and other	23 688 831	19 925 655
	<b>90 308 554</b>	<b>72 786 053</b>
<b>Less: Provision for debt impairment</b>		
Impairment allowance	(65 536 009)	(38 791 603)
<b>Net balance</b>		
Rates	14 613 200	10 427 341
Electricity	5 829 667	4 015 857
Water	25 869 349	21 160 067
Waste water	310 847	214 880
Sewerage	8 499 517	7 044 047
Refuse	9 808 928	8 385 484
Housing rental	1 688 215	1 612 722
Service charges and other	23 688 831	19 925 655
Impairment allowance	(65 536 009)	(38 791 603)
	<b>24 772 545</b>	<b>33 994 450</b>
<b>Rates</b>		
Current (0 -30 days)	3 576 427	1 807 695
31 - 60 days	1 819 876	645 587
61 - 90 days	831 124	581 918
> 90 days	8 385 773	7 392 141
	<b>14 613 200</b>	<b>10 427 341</b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>4. Trade and other receivables from exchange transactions (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	3 578 917	1 889 602
31 - 60 days	865 351	541 947
61 - 90 days	357 804	248 345
> 90 days	1 027 595	1 335 963
	<b>5 829 667</b>	<b>4 015 857</b>
<b>Water</b>		
Current (0 -30 days)	2 509 421	1 239 796
31 - 60 days	1 068 278	901 598
61 - 90 days	844 878	687 440
> 90 days	21 446 772	18 331 233
	<b>25 869 349</b>	<b>21 160 067</b>
<b>Waste water</b>		
Current (0 -30 days)	14 708	27 516
31 - 60 days	24 852	19 903
61 - 90 days	13 045	13 057
> 90 days	258 242	154 404
	<b>310 847</b>	<b>214 880</b>
<b>Sewerage</b>		
Current (0 -30 days)	350 271	413 222
31 - 60 days	393 327	361 916
61 - 90 days	343 198	293 235
> 90 days	7 412 721	5 975 674
	<b>8 499 517</b>	<b>7 044 047</b>
<b>Refuse</b>		
Current (0 -30 days)	537 581	48 161
31 - 60 days	479 607	441 175
61 - 90 days	404 021	337 124
> 90 days	8 387 719	7 559 024
	<b>9 808 928</b>	<b>8 385 484</b>
<b>Housing rental</b>		
Current (0 -30 days)	(36 156)	(28 197)
31 - 60 days	13 712	4 097
61 - 90 days	12 899	4 037
> 90 days	1 697 760	1 632 785
	<b>1 688 215</b>	<b>1 612 722</b>
<b>Service charges and other</b>		
Current (0 -30 days)	1 340 851	3 873 525
31 - 60 days	524 476	2 273 255
61 - 90 days	514 212	1 156 026
> 90 days	21 309 292	12 622 849
	<b>23 688 831</b>	<b>19 925 655</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(38 791 603)	(31 540 546)
Contributions to provision	(29 491 160)	(12 900 000)
Debt impairment written off against provision	1 268 654	5 648 943
Debt impairment for non exchange receivables	1 478 100	-

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>4. Trade and other receivables from exchange transactions (continued)</b>	<b>(65 536 009)</b>	<b>(38 791 603)</b>
<b>5. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	4 050	1 850
Bank balances	9 608 616	-
Short-term deposits	5 011 292	13 414 331
Bank overdraft	-	(232 074)
	<b>14 623 958</b>	<b>13 184 107</b>
Current assets	14 623 958	13 416 181
Current liabilities	-	(232 074)
	<b>14 623 958</b>	<b>13 184 107</b>
The total amount of undrawn facilities available for future operating activities and commitments	3 077 000	3 077 000

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
FIRST NATIONAL BANK - General Account - Current	2 352 434	6 346 726	6 771 050	(5 381 170)	(5 064 808)	3 524 433
FIRST NATIONAL BANK - Housing Account - Current	874 238	2 213 472	31 669 348	862 587	1 355 199	31 035 290
FIRST NATIONAL BANK - Revolving Account - Current	15 525 940	3 094 101	317 941	14 127 199	3 477 535	316 266
<b>Total</b>	<b>18 752 612</b>	<b>11 654 299</b>	<b>38 758 339</b>	<b>9 608 616</b>	<b>(232 074)</b>	<b>34 875 989</b>

### 6. Investments

These investments are classified financial assets.

New Republic Bank (under curatorship)	674 936	429 505
Listed shares - Old Mutual (acquired upon demutualisation)	50 022	43 218
	<b>724 958</b>	<b>472 723</b>

### 7. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	8 485 749	-	8 485 749	5 882 310	-	5 882 310
Plant and machinery	2 411 668	-	2 411 668	2 411 668	-	2 411 668
Office equipment	55 610	-	55 610	-	-	-
Infrastructure	14 820 434	-	14 820 434	6 597 565	-	6 597 565
Wastewater network	23 128 572	-	23 128 572	9 097 230	-	9 097 230
Water network	12 867 589	-	12 867 589	6 125 022	-	6 125 022
Roads	4 097 575	-	4 097 575	515 064	-	515 064
<b>Total</b>	<b>65 867 197</b>	<b>-</b>	<b>65 867 197</b>	<b>30 628 859</b>	<b>-</b>	<b>30 628 859</b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

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

	Opening balance	Additions	Total
Buildings	5 882 310	2 603 439	8 485 749
Plant and machinery	2 411 668	-	2 411 668
Office equipment	-	55 610	55 610
Infrastructure	6 597 565	8 222 869	14 820 434
Wastewater network	9 097 230	14 031 342	23 128 572
Water network	6 125 022	6 742 567	12 867 589
Roads	515 064	3 582 511	4 097 575
	<b>30 628 859</b>	<b>35 238 338</b>	<b>65 867 197</b>

#### Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Other changes, movements	Total
Buildings	-	5 882 310	-	5 882 310
Plant and machinery	-	3 269 132	(857 464)	2 411 668
Infrastructure	-	6 597 565	-	6 597 565
Roads	-	515 064	-	515 064
Wastewater network	-	9 097 230	-	9 097 230
Water network	-	6 125 022	-	6 125 022
	-	<b>31 486 323</b>	<b>(857 464)</b>	<b>30 628 859</b>

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

### 8. Consumer deposits

Electricity	1 312 367	1 211 881
Water	101 503	86 096
	<b>1 413 870</b>	<b>1 297 977</b>

### 9. Trade and other payables

Trade payables	143 177	1 573
Payments received in advance	2 599 978	1 372 070
Retention - valuations	319 200	319 200
Accrued leave pay	1 978 233	1 541 763
Accrued expense	1 823 087	2 310 561
Deposits received	842 747	582 484
Other payables	49 595	28 823
Unidentified direct deposits	1 068 667	798 308
EC Housing	3 209 495	1 700 911
	<b>12 034 179</b>	<b>8 655 693</b>

### 10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Unspent grants	23 879 629	19 441 619
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# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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Figures in Rand

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### 10. Unspent conditional grants and receipts (continued)

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 municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. Expenditure on grants was made in terms of the relevant conditions and no grant funding was withheld during the year

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>11. Financial liabilities - DBSA</b>		
<b>Held at amortised cost</b>		
DBSA Loan 102198 10 years @ 10,89%	6 874 030	7 887 323
DBSA Loan 101161/2 20 years @ 12,34%	7 004 664	7 192 085
DBSA Loan 13478/101 20 years @ 17%	4 207 322	4 400 588
DBSA Loan 11228/15007.5 20 years @ 16,38%	-	6 007
DBSA Loan 101855 10 years @ 9,68%	5 521 414	6 363 826
DBSA Loan 102557/1 15 years @ 8,81%	9 615 375	10 030 118
	<b>33 222 805</b>	<b>35 879 947</b>
<b>Non-current liabilities</b>		
At amortised cost	33 222 805	35 879 947
<b>12. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	840 867	1 221 661
- in second to fifth year inclusive	337 509	1 178 377
- later than five years	-	-
<b>Total minimum lease payments</b>	<b>1 178 376</b>	<b>2 400 038</b>

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

The average lease term was 5 years and the average effective borrowing rate was 13% (2009: 13%).

The leases have not been capitalised as finance lease assets have been accounted for in terms of the transitional provisions of Directive 4.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand

	2010	2009
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### 13. Retirement benefits

#### Post retirement medical aid plan

Ndlambe Municipality employees contribute to 5 medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Health and SAMWU Med. Pensioners continue on the option they belong to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued by an independent qualified actuary. The last actuarial valuation was performed on 30 June 2010 by Deloitte using the Projected Unit Credit Method.

Ndlambe Municipality opted not to recognise any actuarial gains/losses applying the "Corridor" method.

The split for interest and service costs could not be obtained from the Valuer for the prior year and therefore the below figures could not be further analysed. This was therefore considered impracticable.

#### Carrying value

Balance at the beginning of the year	37 242 947	-
Service cost	2 801 438	-
Interest cost	2 640 167	-
Less: Benefits paid	(1 178 829)	-
	<b>41 505 723</b>	<b>37 242 947</b>

#### Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Number of eligible members	288	-
Number of pensioners	44	-
Discount rates used	7,70 %	- %
Medical aid inflation rate	6,70 %	- %
Post retirement subsidy	100,00 %	100,00 %
<b>Retirement age</b>		
Males	65	65
Females	65	65

Mortality during employment - SA 85-90 Ultimate Table adjusted for female lives.

Mortality post retirement - PA901 Ultimate table rated down one year.

### 14. Revenue

Rendering of services	125 485	105 978
Property rates	32 964 467	34 406 894
Service charges	75 767 494	65 962 195
Rental of facilities & equipment	3 132 911	735 226
Fines	421 325	(181 822)
Licences and permits	2 925 703	2 534 748
Government grants & subsidies	77 326 667	49 306 621
	<b>192 664 052</b>	<b>152 869 840</b>

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

Rendering of services	125 485	105 978
Service charges	75 767 494	65 962 195
Rental of facilities & equipment	3 132 911	735 226
Licences and permits	2 925 703	2 534 748
	<b>81 951 593</b>	<b>69 338 147</b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>14. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Property rates	32 964 467	34 406 894
Fines	421 325	(181 822)
Government grants & subsidies	77 326 667	49 306 621
	<b>110 712 459</b>	<b>83 531 693</b>
<b>15. Property rates</b>		
<b>Rates received</b>		
Property rates	32 964 467	34 406 894
<b>Valuations</b>		
All	10 923 382 589	4 792 773 000
<p>Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.</p> <p>Rates are levied on an monthly basis.</p>		
<b>16. Service charges</b>		
Sale of electricity	28 995 243	22 030 323
Sale of water	20 221 122	24 040 384
Sewerage and sanitation charges	8 520 888	7 882 073
Refuse removal	16 783 990	9 273 152
Other service charges	1 246 251	2 736 263
	<b>75 767 494</b>	<b>65 962 195</b>
<b>17. Government grants and subsidies</b>		
Equitable share	35 696 943	27 708 011
PMU	-	600 250
Health subsidies	3 841 543	3 570 938
Government grant (PPE)	33 845 055	13 471 117
Government grant (operating)	3 943 126	3 956 305
	<b>77 326 667</b>	<b>49 306 621</b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>18. General expenses</b>		
Advertising	170 349	330 542
Auditors remuneration	756 095	250 000
Bank charges	674 207	567 096
Cleaning	8 633	79 066
Commission paid	271 505	306 076
Consulting and professional fees	11 665 488	8 669 245
Communication programmes	67 238	-
Boat decals	67 383	14 300
Entertainment	76 121	80 370
Flowers	4 268	-
Hire	81 879	-
Insurance	1 309 027	1 009 727
Election expenses	975	4 673
IT expenses	584 433	276 215
Lease rentals on operating lease	1 849 375	3 060 787
Indigent expenses	20 061 466	17 645 951
Motor vehicle expenses	152 373	165 991
Fuel and oil	2 316 082	2 812 131
Postage and courier	525 052	588 490
Printing and stationery	873 705	699 804
Promotions	40 248	15 527
Security (Guarding of municipal property)	824 031	898 674
Staff welfare	-	10 416
Subscriptions and membership fees	625 445	213 570
Telephone and fax	1 272 632	1 114 580
Transport and freight	59 607	77 214
Training	124 029	99 550
Travel - local	1 071 894	915 362
Refuse	49 861	75 693
Electricity	3 796 113	2 771 015
Sewerage and waste disposal	114 318	182 896
Uniforms	376 830	300 817
Tourism development	-	1 804
Water Testing	330 297	77 434
MIG Expenses	646 515	(229 833)
Bursaries	22 847	62 920
MSIG Expenses	481 108	-
Water Services Authority expenses	184 664	74 126
Publicity	361 830	412 052
Valuation expenses	1 070 642	500 000
Transport (workshop)	207 178	119 886
Chemicals	426 246	327 943
PMS review process	41 266	9 971
Clearing of erven	46 500	38 900
Other expenses	285 109	782 306
	<b>53 974 864</b>	<b>45 413 287</b>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>19. Employee related costs</b>		
Basic	38 944 664	33 766 115
Medical aid - company contributions	5 354 291	3 070 057
UIF	380 828	340 670
WCA	345 347	222 417
SDL	456 587	364 143
Leave pay provision charge	436 470	-
Post-employment benefits - Pension - Defined contribution plan	5 392 464	4 669 960
Overtime payments	4 046 214	3 881 994
Car allowance	2 015 582	1 606 776
Housing benefits and allowances	283 589	231 977
Group insurance	342 414	275 250
Allowances	1 477 429	2 276 262
Industrial levy	18 739	17 474
Casuals	830 832	663 656
	<b>60 325 450</b>	<b>51 386 751</b>
<b>Remuneration of municipal manager (11 months)</b>		
Annual Remuneration	483 941	404 810
Car Allowance	149 984	143 590
Telephone allowance	13 240	12 230
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	141 083	128 170
	<b>788 248</b>	<b>688 800</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	456 879	417 180
Car Allowance	159 574	153 310
Telephone allowance	14 392	13 390
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	171 257	115 880
	<b>802 102</b>	<b>699 760</b>
<b>Remuneration of executive directors</b>		
<b>Remuneration of the director: infrastructural development</b>		
Annual Remuneration	455 585	416 340
Car Allowance	163 037	156 641
Telephone allowance	14 392	13 390
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	213 004	150 394
	<b>846 018</b>	<b>736 765</b>
<b>Remuneration of the director: corporate services</b>		
Annual Remuneration	464 999	462 890
Car Allowance	163 037	151 640
Telephone allowance	14 392	13 390
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	111 740	48 470
	<b>754 168</b>	<b>676 390</b>
<b>Remuneration of the director: community and protection services</b>		
Annual Remuneration	452 404	414 883
Car Allowance	163 037	156 640

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>19. Employee related costs (continued)</b>		
Telephone allowance	14 392	13 390
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	220 947	138 840
	<b>850 780</b>	<b>723 753</b>
<b>20. Remuneration of councillors</b>		
Executive Major	588 649	543 439
Speaker	254 871	238 949
Other councillors	2 979 834	2 755 327
	<b>3 823 354</b>	<b>3 537 715</b>
<b>21. Debt impairment</b>		
Contributions to debt impairment provision	29 464 739	12 900 000
<b>22. Investment revenue</b>		
<b>Dividend revenue</b>		
Listed financial assets - Old Mutual	727	-
<b>Interest revenue</b>		
Unlisted financial assets	590 877	-
Bank	2 123 993	354 538
Interest charged on trade and other receivables	3 042 532	3 159 449
	<b>5 757 402</b>	<b>3 513 987</b>
	<b>5 758 129</b>	<b>3 513 987</b>
<b>23. Fair value adjustments</b>		
Other financial assets		
• NRB (under curatorship) amount due	252 235	-
<b>24. Finance costs</b>		
Non-current borrowings	6 915 354	5 780 953
Bank	11 159	-
	<b>6 926 513</b>	<b>5 780 953</b>
<b>25. Auditors' remuneration</b>		
Fees	756 095	250 000
<b>26. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Spatial development framework	-	20 711
FMG	-	11 379
Audit action plan	-	3 158
Operating expenditure ex Grant Funding	3 834 711	6 916 589
Grants in aid	-	19 417
	<b>3 834 711</b>	<b>6 971 254</b>
<b>27. Bulk purchases</b>		

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>27. Bulk purchases (continued)</b>		
Electricity	16 595 271	12 642 896
Water	4 084 778	4 350 178
	<b>20 680 049</b>	<b>16 993 074</b>
<b>28. Cash generated from (used in) operations</b>		
Surplus	16 043 858	10 819 237
<b>Adjustments for:</b>		
Loss (gain) on sale of assets and liabilities	(1 245 189)	-
Gain on sale of non-current assets and disposal groups	-	3 652 176
Fair value adjustments	(252 235)	-
Prior Year transactions	-	(6 974 855)
Debt impairment	29 464 739	12 900 000
Retirement benefits	4 262 776	(37 242 947)
Other non cash items	473 458	20 150 295
Adjust for advances	9 346 514	-
Adjustment to surplus on IMFO transactions	(10 953 792)	26 110 732
<b>Changes in working capital:</b>		
Inventories	54 026	220 831
Trade and other receivables from non-exchange transactions	247 840	(1 086 015)
Consumer debtors	(19 000 601)	(7 022 395)
Trade and other payables	3 378 486	(850 818)
VAT	1 217 902	3 724 497
Unspent conditional grants and receipts	4 438 010	(29 766 262)
Consumer deposits	115 893	122 479
	<b>37 591 685</b>	<b>(5 243 045)</b>

## 29. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 1
- GRAP 2
- GRAP 3
- GRAP 4
- GRAP 5
- GRAP 6
- GRAP 7
- GRAP 8
- GRAP 9
- GRAP 10
- GRAP 11
- GRAP 12
- GRAP 13
- GRAP 14
- GRAP 15
- GRAP 16
- GRAP 17
- GRAP 19
- GRAP 100
- GRAP 101
- GRAP 102

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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### 29. Changes in accounting policy (continued)

- Directive 1
- Directive 2
- Directive 4
- Directive 5
- IGRAP 1
- IPSAS 20

#### Reconciliation of effect of accounting policy changes on accumulated surplus

Accumulated surplus as previously reported	6 991 907
Retirement benefit obligation recognised in statement of financial performance 2009	(37 242 947)
Trust funds	35 819 426
Property, plant and equipment	(21 067 266)
Receivables	(12 882 806)
Provision for audit fees	1 365 096
Unspent conditional grants	(21 142 529)
Accumulated funds movement	20 535 843
Other	(15)
Accumulated surplus restated at 1 July 2009	<u>(27 623 291)</u>

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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### 30. New standards and interpretations

#### 30.1 Standards and interpretations effective and adopted in the current year

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

##### **GRAP 6: Consolidated and Separate Financial Statements**

GRAP 6 includes specific guidance on whether control exists and on power conditions to determine whether control exists in a public sector context – public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

GRAP 6 includes specific guidance and explanatory material on the accounting of special purpose entities adopted from SIC 12 – SA specific public sector amendment. Public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

The initial application of GRAP 6 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard for separate annual financial statements. For consolidated annual financial statements the result of initially adopting the Standard shall be recognised in the economic entity as an adjustment to the opening balance of accumulated surplus or deficit and comparative information need not be restated for the economic entity.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

##### **GRAP 7: Investments in Associates**

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The investor must exercise judgement in the context of all available information to determine if it has significant influence over an investee.

An investor accounts for investments in associates in the consolidated annual financial statements using the equity method.

The initial application of GRAP 7 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

The impact of the standard is not material.

#### GRAP 8: Interests in Joint Ventures

GRAP 8 uses a different definition for joint venture and joint control – contractual arrangement has been replaced by binding arrangement (public sector amendment) – public entities need to review current arrangements to determine whether they fall within the scope of GRAP 8 as a result of the public sector amendment.

Applying the definition of joint control as defined in this Standard may result in the identification of other entities that are also jointly controlled ventures in addition to those identified by complying with applicable legislation.

GRAP 8 incorporates guidance adopted from SIC13 on Non-monetary Contributions by ventures issued by the IASB i.e. provisions for accounting for non-monetary contributions to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity that is accounted for using either the equity method or proportionate consolidation. (Par.57-62).

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity or proportionate consolidation method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the municipality receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the municipality, and the municipality can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no affect on initial adoption of Standard on GRAP 9.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### GRAP 10: Financial Reporting in Hyperinflationary Economies

GRAP 10 includes additional guidance as adopted from Financial Reporting in Hyperinflationary Economies (IFRIC 7) on Applying the Restatement Approach.

The initial application of GRAP 4 will have no impact on the annual financial statements.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### GRAP 11: Construction Contracts

The definition for "construction contract" was expanded by including a binding arrangement that do not take the form of a legal contract within the scope of the Standard.

Definition for "cost plus or cost based contract" has been expanded to include commercially-based contract.

The scope has been expanded to include cost based and non-commercial contracts.

Public entities need to review contracts to determine whether they fall within the scope of the Standard based on the above changes.

GRAP 11 incorporates the concept of service potential in the condition to determine whether the outcome of a construction contract can be estimated reliably. The requirement to recognise an expected deficit on a contract immediately when it becomes probable that contract costs will exceed total contract revenue applies only to contracts in which it is intended at the inception of the contract that contract costs are to be fully recovered from the parties to that contract (par.47).

Other than the above requirements, there is no other affect on initial adoption of GRAP 11.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the municipality would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the municipality as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure inventories in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the municipality has contravened these legislative requirements, the municipality is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received approval from management to be issued to the executive authority or municipal council.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

An entity shall adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### **GRAP 16: Investment Property**

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

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

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure investment properties in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### **GRAP 17: Property, Plant and Equipment**

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the municipality needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP 17.

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire. Entities are also not required to measure classes of Property, Plant and Equipment in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

The Standard includes accounting for obligations to make additional contributions to a fund. This is similar to the requirements of IFRIC5 (AC438).

It further includes the accounting for the changes in existing decommissioning, restoration and similar liabilities. This is similar to the requirements of IFRIC1 (AC434).

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the municipality.

If an external valuation is use to measure a provision the information relating to the valuation can usefully be disclosed.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

#### **GRAP 100: Non-current Assets Held for Sale and Discontinued Operations**

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. "Non-cash-generating assets" are assets other than cash-generating assets and "value in use of a non-cash-generating asset" is the present value of the asset's remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a controlled entity acquired exclusively with a view to resale.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires prospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standards of GRAP on Inventories, Investment Property, Property, Plant and Equipment, Agriculture and Intangible Assets until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### **GRAP 101: Agriculture**

GRAP 101 excludes guidance on accounting for non-exchange revenue from government grants related to a biological asset as GRAP 23 on Revenue from Non-Exchange Transactions will provide such guidance.

Recognition requirement includes the concept of the probable flow of service potential.

Biological assets acquired at no or for a nominal value shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs.

Additional disclosure is required of biological assets for which the municipality's use or capacity to sell is subject to restrictions imposed by regulations that have a significant impact on their total fair value less estimated point-of-sale costs.

In the reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period it is also required to disclose increases or decreases due to transfers.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity requires any adjustments required to the previous carrying amounts of assets and net assets shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit in the period that the Standard is initially adopted. Comparative information is not required to be restated. Entities are not required to recognise biological assets and/or agricultural produce for reporting periods beginning on or after a date within three years following the date of initial adoption of this Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

#### **GRAP 102: Intangible Assets**

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non-cash-generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state “gains shall not be classified as revenue” as GRAP term “income” has a broader meaning than the term “revenue”.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity requires retrospective application of the Standard. Where entities have, on initial adoption of the Standard, accumulated and retained sufficient information about costs and the future economic benefits or service potential related to intangible assets that may have been expensed previously, those intangible assets should be recognised in accordance with the Standard. Entities are not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible Assets.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### GRAP 103: Heritage Assets

Grp 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.

Grp 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

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

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.

Grp 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.

Grp 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 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

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

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

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

The effective date of the interpretation is for years beginning on or after 01 July 2009.

The municipality has adopted the interpretation for the first time in the 2010 annual financial statements.

The adoption of this interpretation has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

### **IPSAS 21: Impairment of Non Cash-Generating Assets**

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

The method of measurement of value in use of a non-cash-generating asset under this Standard is different to that applied to a cash generating asset.

Asset should be measured by reference to the present value of the remaining service potential of the asset.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset, may be the depreciated replacement cost approach, restoration cost approach and service units approach.

This Standard does not require entities to apply an impairment test to property, plant and equipment carried at revalued amounts.

This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### IPSAS 20: Related Party Disclosure

IPSAS 20 specifically excludes any consideration provided to key management personnel solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

### 30.2 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 2010 or later periods:

### 30.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods but are not relevant to its operations:

### 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.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the 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.

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the 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.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the 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.

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

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

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the 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, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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

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.

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>31. VAT payable</b>		
Vat refunds payable	4 942 399	3 724 497
<b>32. Other income</b>		
Admission fees	63 073	82 433
Alexandria sundry	3 465	9 560
Building plan fees	463 586	453 026
Canoe contract	567	474
Encroachments	6 298	2 592
Event application fees	7 305	8 421
Sundry fees	4 883	16 606
Sundry fees	1 265	2 939
Sundry fees	-	134
Pit inspection fees	4 275	5 740
Refuse bags sold	19 971	21 142
River usage	114 282	250 170
Sundry income	577 695	966 694
Subdivisions	33 298	32 836
Town planning income	111 987	135 474
Valuation rolls	44 949	70 003
	<b>1 456 899</b>	<b>2 058 244</b>
<b>33. Administrative expenditure</b>		
Administration and management fees - third party	33 864	4 721
<b>34. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	1 235 520	13 029 838
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	-	250 000
• Intangible assets	-	243 000
	-	<b>493 000</b>
This committed expenditure relates to infrastructure development and will be financed from grant funding.		
<b>35. Contingencies</b>		
Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2010 is R2 907 437. The estimated amount on 30 June 2009 was R3 907 437.		
<b>36. Going concern</b>		
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.		
<b>37. Events after the reporting date</b>		
There were no events for disclosure that occurred after the reporting date.		
<b>38. Unauthorised expenditure</b>		

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

Figures in Rand	2010	2009
<b>38. Unauthorised expenditure (continued)</b>		
Unauthorised expenditure	15 644 428	18 988 552
The above amount represents expenditure incurred due to either no budget or overspending on budget. This amount has been condoned by Council on 30 August 2010.		
<b>39. Irregular expenditure</b>		
Opening balance	5 877 767	5 877 767
Add: Irregular Expenditure - current year	19 864 394	-
	<b>25 742 161</b>	<b>5 877 767</b>
<b>40. Reconciliation between budget and statement of financial performance</b>		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus per the statement of financial performance	16 043 858	10 819 237
<b>Adjusted for:</b>		
Fair value adjustments	(252 235)	-
External audit fees	(150 000)	(1 200 000)
Loss on the sale of assets	(1 245 189)	-
Increases / decreases in provisions	1 973 580	-
Service cost medical aid benefit	2 801 438	-
Interest cost medical aid benefit	2 640 187	-
Redemption	(5 726 370)	(5 751 370)
Medical aid for pensioners	(1 075 200)	(935 982)
Net over and under revenue and expenditure	3 355 052	(4 348 570)
Contribution to capital expenditure	(25 223 655)	(1 024 338)
	<b>(6 858 534)</b>	<b>(51 856)</b>
<b>41. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	617 662	194 640
<b>Audit fees</b>		
Amount paid - current year (iro 2009 Audit)	1 830 534	1 649 860
<b>PAYE and UIF</b>		
Amount paid - current year	6 333 928	5 348 182
<b>Pension and Medical Aid Deductions</b>		
Amount paid - current year	14 893 781	11 991 536
<b>VAT</b>		
VAT payable	4 942 399	3 724 497

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

### Supply chain management regulations

# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Notes to the Annual Financial Statements

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Figures in Rand	2010	2009
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### 41. Additional disclosure in terms of Municipal Finance Management Act (continued)

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

#### Incident

Sundries (mainly advertising)

350 675

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# Ndlambe Municipality

Annual Financial Statements for the year ended 30 June 2010

## Detailed Income statement

Figures in Rand	Note(s)	2010	2009
<b>Revenue</b>			
Rendering of services		125 485	105 978
Property rates	15	32 964 467	34 406 894
Service charges	16	75 767 494	65 962 195
Rental of facilities and equipment		3 132 911	735 226
Fines		421 325	(181 822)
Licences and permits		2 925 703	2 534 748
Government grants & subsidies	17	77 326 667	49 306 621
Rental income		9 653	18 734
Other income		1 456 899	2 058 244
Interest received - investment	22	5 757 402	3 513 987
Dividends received	22	727	-
<b>Total Revenue</b>		<b>199 888 733</b>	<b>158 460 805</b>
<b>Expenditure</b>			
Personnel	19	(60 325 450)	(51 386 751)
Remuneration of councillors	20	(3 823 354)	(3 537 715)
Administration	33	(33 864)	(4 721)
Finance costs	24	(6 926 513)	(5 780 953)
Debt impairment	21	(29 464 739)	(12 900 000)
Repairs and maintenance		(6 278 755)	(4 653 813)
Bulk purchases	27	(20 680 049)	(16 993 074)
Grants and subsidies paid	26	(3 834 711)	(6 971 254)
General Expenses	18	(53 974 864)	(45 413 287)
<b>Total Expenditure</b>		<b>(185 342 299)</b>	<b>(147 641 568)</b>
Gain or loss on disposal of assets and liabilities		1 245 189	-
Fair value adjustments	23	252 235	-
<b>Surplus for the year</b>		<b>16 043 858</b>	<b>10 819 237</b>