

XHARIEP DISTRICT MUNICIPALITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE 2010



I am responsible for the preparation of these annual financial statements, which are set out on page 4 to 52, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 17 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager
TL Mkhwane

Date

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FOR THE YEAR ENDED 30 JUNE 2010**

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GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of operations and principal activities	Administering and making rules of the district, which includes Kopanong Local Municipality, Letsemeng Local Municipality and Mohokare Local Municipality.
Legal form	An organ of state within the local sphere of government exercising legislative and executive authority.
Jurisdiction of entity	Area DC16, a district municipality, as demarcated by the Demarcation Board and indicated in the demarcation map.
Grading of the Municipality	Small Capacity
Mayor	Cllr M Ntwanambi
Councillors and their portfolios	<p><u>Speaker:</u> Cllr AM Shasha</p> <p><u>Members of Mayoral Committee:</u> Cllr M Ntwanambi Cllr T Reachable Cllr KE Dlomo Cllr V Mona</p> <p><u>Chief Whip:</u> Cllr TL Reachable</p> <p><u>Councillors of the Council:</u> Cllr NB Shiya Cllr BS Majenge Cllr RJ Thuhlo Cllr MA Kwinani Cllr MJ Ralithhare Cllr AJ Van Rensburg Cllr M Du Toit</p>
Registered address	20 Louw Street Trompsburg 9913

**XHARIEP DISTRICT MUNICIPALITY
GENERAL INFORMATION
FOR THE YEAR ENDED 30 JUNE 2010**

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GENERAL INFORMATION (continued)

Postal address	P.O. Box 136 Trompsburg 9913
Bankers	ABSA Bank
Auditors	The Auditor-General: Free State
Municipal Manager	TL Mkhwane
Chief Financial Officer	T Panyani
Relevant Legislation	The Constitution of the Republic of South Africa The Municipal Structures Act, No.117 of 1998 The Municipal Systems Act, No. 32 of 2000 The Municipal Finance Management Act, No. 56 of 2003 The Basic Conditions of Employment Act 75 Of 1997 The VAT Act 89 of 1991 The Skills Development Act 9 of 1999 The Division of Revenue Act 1 of 2007

XHARIEP DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

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	Note	2010 R	RESTATED 2009 R
ASSETS			
Current assets		11 759 032	14 513 237
Cash and cash equivalents	1	6 013 417	10 477 349
Trade and other receivables from exchange transactions	2	861 354	841 252
Sundry receivables	3	3 772 730	2 969 392
Inventory	4	-	-
Current portion of non-current receivables	5	-	-
VAT receivable	9	1 111 531	225 244
Non-current assets		18 024 741	14 860 031
Non-current receivables	5	-	-
Property, plant and equipment	6	17 484 564	14 451 434
Intangible assets	7	540 177	408 598
Total Assets		29 783 773	29 373 268
LIABILITIES			
Current liabilities		5 790 116	2 310 194
Trade and other payables from exchange transactions	8	4 263 038	2 009 649
Unspent conditional grants and receipts	10	1 272 561	221 713
Current portion of finance lease liabilities	11	254 517	78 832
Non-current liabilities			
Non-current finance lease liability	11	760 193	28 567
Total Liabilities		6 550 308	2 338 761
NET ASSETS		23 233 465	27 034 508
NET ASSETS			
Accumulated Surplus		23 233 465	27 034 508

XHARIEP DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

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	Notes	2010 R	RESTATED 2009 R
REVENUE		26 043 569	18 738 828
Rental income	12	224 661	235 776
Interest earned	13	927 373	755 878
Gain on disposal of assets	14	62 603	-
Government grants and subsidies	15	24 824 459	17 680 187
Other income		4 472	66 988
EXPENDITURE		29 844 611	19 645 178
Employee related costs	16	14 821 133	7 611 796
Remuneration of Councillors	17	2 385 759	1 652 050
Bad debts and impairment of debtors movement		364 808	64 962
Depreciation and amortisation expense	18	-	-
Repairs and maintenance	19	1 920 532	272 374
Finance costs	20	121 746	4 205
Loss on disposal of assets	14	-	4 293 956
General expenses	22	10 230 632	5 745 834
(DEFICIT)/SURPLUS FOR THE YEAR		(3 801 043)	(906 350)

Refer to Appendix E for the comparison with the approved budget

XHARIEP DISTRICT MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2010

	Pre-GAMAP / GRAP Reserves and Funds	Accumulated Surplus	TOTAL
2009			
Balance at 1 July 2008	5 861 916	1 471 987	7 333 903
Implementation of GRAP (refer to note 29.2)	(5 861 916)	26 468 870	20 606 954
Restated balance	-	27 940 857	27 940 857
Surplus for the year as previously stated	-	2 944 312	2 944 312
Implementation of GRAP (refer to note 29.1)	-	(3 850 662)	(3 850 662)
Restated surplus/(deficit) for the year	-	(906 350)	(906 350)
Restated balance at 30 June 2009	-	27 034 508	27 034 508
2010			
Deficit for the year	-	(3 801 043)	(3 801 043)
Balance at 30 June 2010	-	23 233 465	23 233 465

XHARIEP DISTRICT MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

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	Notes	2010 R	RESTATED 2009 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and others	24	23 167 924	16 881 788
Cash paid to suppliers and employees	25	(26 241 500)	(14 614 907)
Cash generated from / (required by) operating activities	26	(3 073 576)	2 266 881
Interest received		927 373	755 878
Finance costs		(121 746)	(4 205)
Net cash flows from operating activities		(2 267 949)	3 018 554
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(3 358 843)	(306 627)
Proceeds from sale of property, plant and equipment		238 545	-
Purchase of intangible assets		131 579	(377 041)
Decrease/(increase) in non-current receivables		-	11 198
Net cash flows from investing activities		(2 988 719)	(672 470)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in finance lease liabilities		1 094 536	74 980
Repayment of finance lease liabilities		(301 800)	(57 777)
Net cash flows from financing activities		792 736	17 204
Net increase/(decrease) in net cash and cash equivalents		(4 463 932)	2 363 288
Cash and cash equivalents at the beginning of the year		10 477 349	8 114 061
Cash and cash equivalents at the end of the year	1	6 013 417	10 477 349

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

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

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The applied Standards of GRAP emanate from Directive 5 "Determining the GRAP Reporting Framework", issued by the Accounting Standards Board.

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7, 11 and 12 of GRAP 3.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

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

In terms of Directive 4: "Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities" and Directive 7: "The application of deemed cost on the adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality has adopted the transitional provisions for the following GRAP Standards:

GRAP 12 - Inventories;
GRAP 13 - Leases;
GRAP 17 - Property, plant and equipment;
GRAP 102 - Intangible assets.

1.2 PRESENTATION CURRENCY

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

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

The municipality cannot continue to operate without receiving government grants. However the going concern assumption is based on the fact that according to DoRA the municipality will continue to receive government grants for the next three years.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

1 BASIS OF ACCOUNTING (continued)

1.4 COMPARATIVE INFORMATION (continued)

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

1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

GRAP 8 Interest in Joint Ventures - issued August 2006

GRAP 18 Segment Reporting - issued March 2005

GRAP 21 Impairment of Non-cash generating Assets

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008

GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007

GRAP 25 Employee benefits

GRAP 26 Impairment of Cash Generating Assets - issued March 2009

GRAP 103 Heritage Assets - issued July 2008

GRAP 104 Financial Instruments

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits - effective 1 January 2009

IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009

There were no impending changes in accounting policy at year end.

2 PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

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

2 PROPERTY, PLANT AND EQUIPMENT (continued)

2.1 INITIAL RECOGNITION (continued)

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

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

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, its deemed cost is the carrying amount of the asset(s) given up.

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

2.2 SUBSEQUENT MEASUREMENT - COST MODEL

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

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

2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Other

Buildings	30
Computer equipment	3 - 7
Other vehicles	5 - 7
Office equipment	3 - 7
Furniture and fittings	7 - 10

Finance lease assets

Office equipment	The shorter of asset's useful life or the lease term
Other assets	The shorter of asset's useful life or the lease term

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

2 PROPERTY, PLANT AND EQUIPMENT (continued)

2.3 DEPRECIATION AND IMPAIRMENT (continued)

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.4 DERECOGNITION

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

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

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

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

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

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2010**

3 INTANGIBLE ASSETS (continued)

3.3 AMORTISATION AND IMPAIRMENT

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

Computer software	3 - 5 Years
Right to use land	The shorter of right to use land or useful life

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 DERECOGNITION

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

4 INVENTORIES

4.1 INITIAL RECOGNITION

Inventories comprise current assets (consumable stores) consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

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

4.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, are to be distributed at no or nominal charge and are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2010**

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 SUBSEQUENT MEASUREMENT

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

5.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

5.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

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

5.2.3 TRADE PAYABLES AND BORROWINGS

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

5 FINANCIAL INSTRUMENTS (continued)

5.2 SUBSEQUENT MEASUREMENT (continued)

5.2.4 CASH AND CASH EQUIVALENTS

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

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

6 FRUITLESS AND WASTEFUL EXPENDITURE

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

7 UNAUTHORISED EXPENDITURE

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

8 IRREGULAR EXPENDITURE

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

9 LEASES

9.1 MUNICIPALITY AS LESSEE

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

9 LEASES (continued)

9.1 MUNICIPALITY AS LESSEE (continued)

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

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

9.2 MUNICIPALITY AS LESSOR

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

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

10 REVENUE

10.1 REVENUE FROM EXCHANGE TRANSACTIONS

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

Interest revenue is recognised on a time proportion basis.

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

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

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

10.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

10 REVENUE (continued)

10.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS (continued)

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

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

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

10.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

11 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

12 IMPAIRMENT OF ASSETS

The municipality assesses at each reporting date whether there is any indication that an 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 municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

12 IMPAIRMENT OF ASSETS (continued)

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

	2010 R	RESTATED 2009 R
1 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of the following:		
Cash at bank	216 256	504 773
Call deposits	1 666 444	9 972 576
Fixed deposits	4 130 717	-
	<u>6 013 417</u>	<u>10 477 349</u>
The Municipality has the following bank accounts: -		
<u>Current Account (Primary Bank Account)</u>		
ABSA Bank Limited - Brandwag Branch Account Number 4053628182		
Cash book balance at beginning of year	<u>504 773</u>	<u>1 773 760</u>
Cash book balance at end of year	<u>216 256</u>	<u>504 773</u>
Bank statement balance at beginning of year	<u>512 487</u>	<u>1 181 879</u>
Bank statement balance at end of year	<u>216 506</u>	<u>512 487</u>
<u>Call deposits</u>		
ABSA Bank Limited - Trompsburg branch Account number: Various		
Cash book balance at beginning of year	<u>9 972 576</u>	<u>7 104 811</u>
Cash book balance at end of year	<u>1 666 444</u>	<u>9 972 576</u>
Bank statement balance at beginning of year	<u>9 972 576</u>	<u>12 343 926</u>
Bank statement balance at end of year	<u>1 666 444</u>	<u>9 972 576</u>
<u>Fixed Deposits</u>		
First National Bank - Trompsburg branch Account number: Various		
Cash book balance at beginning of year	<u>-</u>	<u>-</u>
Cash book balance at end of year	<u>4 130 717</u>	<u>-</u>
Bank statement balance at beginning of year	<u>-</u>	<u>-</u>
Bank statement balance at end of year	<u>4 130 717</u>	<u>-</u>
<u>Cash on hand</u>	<u>-</u>	<u>-</u>
Total cash and cash equivalents	<u>6 013 417</u>	<u>10 477 349</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS	Gross Balances	Provision for Impairment of Debtors	Net Balance
	R	R	R
Trade receivables			
as at 30 June 2010			
Building and facilities rental	1 540 470	(679 115)	861 354
Total	<u>1 540 470</u>	<u>(679 115)</u>	<u>861 354</u>
as at 30 June 2009			
Balance as previously stated	798 090	-	798 090
Correction of error (refer to note 28.2)	376 108	(332 946)	43 162
Total (restated)	<u>1 174 198</u>	<u>(332 946)</u>	<u>841 252</u>

	RESTATED	
	2010 R	2009 R
Building rentals: Ageing		
Current (0 – 30 days)	106 138	421 506
31 - 60 Days	26 688	23 080
61 - 90 Days	25 970	24 247
91 - 120 Days	25 844	25 897
121 - 150 Days	25 781	24 099
151 - 180 Days	25 502	24 787
+ 180 Days	1 304 547	630 581
Total	<u>1 540 470</u>	<u>1 174 198</u>

Provision for impairment of debtors		
Balance at the beginning of the year (as previously stated)		332 946
Correction of error	28.5	-
Restated balance at the beginning of the year		332 946
Contributions to provision	28.5	346 170
Bad debts written off against provision		-
Balance at the end of the year		<u>679 115</u>

No amounts were written off during the current and prior financial year.

Debtors were disclosed at nominal value net of provision for doubtful debts.

Summary of Debtors by Customer Classification	Industrial / Commercial	National, Provincial and Local Government
	2010	
Current (0 – 30 days)	2 193	103 945
31 - 60 Days	-	26 688
61 - 90 Days	-	25 970
91 - 120 Days	-	25 844
121 - 150 Days	-	25 781
151 - 180 Days	-	25 502
+ 180 Days	200	1 304 347
Sub-total	2 393	1 538 077
Less: Provision for doubtful debts	(2 193)	(676 922)
Total debtors by customer classification	<u>200</u>	<u>861 154</u>

	2010 R	RESTATED 2009 R
2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Summary of Debtors by Customer Classification		
	Industrial / Commercial	National, Provincial and Local Government
2009		
Current (0 – 30 days)	1 500	420 006
31 - 60 Days	-	23 080
61 - 90 Days	-	24 247
91 - 120 Days	1 000	24 897
121 - 150 Days	-	24 099
151 - 180 Days	-	24 787
+ 180 Days	-	630 581
Sub-total	<u>2 500</u>	<u>1 171 698</u>
Less: Provision for doubtful debts	-	(332 946)
Total debtors by customer classification	<u><u>2 500</u></u>	<u><u>838 752</u></u>

Trade and other receivables past due but not impaired

Trade and other receivables past due but not impaired 861 154 838 752

These were not impaired due to the fact that the debtor is also a creditor of Xhariep Local Municipality to an amount equal to the unimpaired debt. The balance higher than the creditor balance was impaired for the current and prior financial year.

3 SUNDRY RECEIVABLES

Other debtors		382 931	80 142
Balance as previously stated		-	65 214
Correction of error	28.10	-	14 928
Accrued income		3 375 939	2 889 250
Prepayments		13 860	-
Total Sundry Receivables		<u><u>3 772 730</u></u>	<u><u>2 969 392</u></u>

Debtors were disclosed at nominal value net of provision for doubtful debts.

4 INVENTORIES

Opening balance of inventories:

Consumable stores - -

Additions:

Consumable stores - -

Issued (expensed):

Consumable stores - -

Write-down to Net Replacement Value (NRV)

Consumable stores - -

Closing balance of inventories:

Consumable stores - -

Consumable stores of the municipality consist of the following:

- Stationery
- Building cleaning material
- Other office supplies

	2010	RESTATED
	R	2009
		R

4 INVENTORIES (continued)

At year end the municipality did not have sufficient information to measure inventory used during the financial year and inventory on hand at year end. The Municipality will record inventory on the detailed inventory register with sufficient information to determine the value of inventory used during the financial year and the value of inventory on hand at year end. The Municipality has applied the measurement transitional provisions for inventory in Directive 4 of the Accounting Standards Board. As a result the Municipality has recognised inventory at R0 provisional amounts until all the necessary information regarding the value of the inventory is obtained.

	2010	RESTATED
	R	2009
		R

5 NON-CURRENT RECEIVABLES

Car loans		241 352	222 713
Balance as previously stated		-	188 334
Correction of error	28.3	-	34 379

Less: Current portion transferred to current receivables		-	-
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Less: Provision for impairment of debtors		(241 352)	(222 713)
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Total		<u>-</u>	<u>-</u>
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Provision for impairment of debtors

Balance at the beginning of the year (as previously stated)		222 713	148 851
Correction of error	28.5	-	62 338
Restated balance at the beginning of the year		222 713	211 189
Contributions to provision	28.5	18 638	11 525
Bad debts written off against provision		-	-
Balance at the end of the year		<u>241 352</u>	<u>222 713</u>

No amounts were written off during the current and prior financial year.

Debtors were disclosed at nominal value net of provision for bad debts.

6 PROPERTY, PLANT AND EQUIPMENT

6.1 Reconciliation of Carrying Value	Building R	Work in Progress R	Other Assets R	Finance lease assets R	Total R
as at 1 July 2009	13 257 213	-	1 006 421	187 800	14 451 434
Cost	13 257 213	-	1 006 421	187 800	14 451 434
Accumulated depreciation and impairment losses	-	-	-	-	-
Acquisitions	-	1 221 227	1 032 888	1 104 728	3 358 843
Depreciation	-	-	-	-	-
Carrying value of disposals	-	-	(175 941)	-	(175 941)
Cost/Revaluation	-	-	(175 941)	-	(175 941)
Accumulated depreciation and impairment losses	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	(149 771)	-	(149 771)
as at 30 June 2010	13 257 213	1 221 227	1 713 596	1 292 528	17 484 564
Cost/Revaluation	13 257 213	1 221 227	1 863 367	1 292 528	17 634 335
Accumulated depreciation and impairment losses	-	-	(149 771)	-	(149 771)

Refer to Appendix B for more details on property, plant and equipment

XHARIEP DISTRICT MUNICIPALITY
NOTES TO THE FINANANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

6.2 Reconciliation of Carrying Value

	Building R	Work in Progress R	Other Assets R	Finance lease assets R	Total R
as at 1 July 2008	17 551 169	-	764 582	123 012	18 438 763
Cost as previously stated	17 551 169	-	636 164	-	18 187 333
Correction of error (note 28)	-	-	-	-	-
Change in accounting policy (note 27)					
Capitalising finance leased assets	-	-	-	123 012	123 012
Capitalising assets > R1,000 but < R5,000	-	-	128 418	-	128 418
Accumulated depreciation and impairment losses	-	-	-	-	-
Acquisitions	-	-	241 839	64 788	306 627
As previously stated	-	-	292 036	-	292 036
Change in accounting policy (note 27)					
Capitalising finance leased assets	-	-	(64 144)	64 788	644
Capitalising assets > R1,000 but < R5,000	-	-	13 946	-	13 946
Depreciation	-	-	-	-	-
Carrying value of disposals	(4 293 956)	-	-	-	(4 293 956)
Cost/Revaluation	(4 293 956)	-	-	-	(4 293 956)
Accumulated depreciation and impairment losses	-	-	-	-	-
as at 30 June 2009 (restated)	13 257 213	-	1 006 421	187 800	14 451 434
Cost/Revaluation	13 257 213	-	1 006 421	187 800	14 451 434
Accumulated depreciation and impairment losses	-	-	-	-	-

NOTES TO THE FINANANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

6.2 Reconciliation of Carrying Value (continued)

The land on which the Administrative Building of Xhariep District Municipality is built is owned by Kopanong Local Municipality. As per the contract to use the land, certain events should take place before the land can be sold to Xhariep District Municipality.

Refer to Appendix B for more details on property, plant and equipment.

6.3 Transitional provisions applied and progress made

Cost prices and purchase dates of most of the municipality's assets were not available at year end to calculate depreciation for the year (incl. backlog depreciation). However the municipality is in the process of obtaining market values to use as deemed cost prices in accordance with Directive 7 of the Accounting Standards Board. This process will be performed in-house and with the assistance of 'Valuators' where supporting documentation for the specific assets or similar assets cannot be obtained to assign a deemed cost in line with Directive 7. This information should be finalised within the next three financial years (measurement period).

The following quantities of assets were included in the Municipality's fixed asset register at R0 value and no acquisition dates respectively:

DESCRIPTION	R0 VALUE	NO PURCHASE DATES	TOTAL QUANTITIES
Buildings	-	-	1
Other assets (Note A)	665	528	891
Finance leased assets	-	-	30
TOTAL	665	528	922

Note A - Included in other assets are Motor Vehicles, Equipment, Furniture and Fittings and Computer Equipment.

As per the table above, there is still a lot of work to be done in the next two financial years.

The Municipality has applied the measurement transitional provisions of property, plant and equipment as included in Directive 4 of the Accounting Standards Board. As a result no depreciation (including accumulated depreciation) were recognised in the financial statements. Impairment expense was however recognised for all fixed assets that were broken down/outdated beyond the economical means of repair/upgrade and all fixed assets that were lost (stolen).

7 INTANGIBLE ASSETS

7.1 Reconciliation of carrying value	Right to use land R	Computer Software R	Total R
as at 1 July 2009	-	408 598	408 598
Cost	-	408 598	408 598
Accumulated amortisation and impairment losses	-	-	-
Acquisitions	-	131 579	131 579
Amortisation	-	-	-
Carrying value of disposals	-	-	-
Cost	-	-	-
Accumulated amortisation	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
as at 30 June 2010	-	540 177	540 177
Cost	-	540 177	540 177
Accumulated amortisation and impairment losses	-	-	-
7.2 Reconciliation of carrying value			
as at 1 July 2008	-	31 557	31 557
Cost	-	31 557	31 557
Accumulated amortisation and impairment losses	-	-	-
Acquisitions	-	377 041	377 041
Amortisation	-	-	-
Carrying value of disposals	-	-	-
Cost	-	-	-
Accumulated amortisation	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
as at 30 June 2009	-	408 598	408 598
Cost	-	408 598	408 598
Accumulated amortisation and impairment losses	-	-	-

7 INTANGIBLE ASSETS (continued)

7.3 Transitional provisions applied and progress made

Cost prices and purchase dates of most of the municipality's assets were not available at year end to calculate depreciation/impairment expense for the year (incl. backlog depreciation). However the municipality is in the process of obtaining market values to use as deemed cost prices in accordance with Directive 7 of the Accounting Standards Board. This process will be performed in-house and with the assistance of 'Valuators' where supporting documentation for the specific assets or similar assets cannot be obtained to assign a deemed cost in line with Directive 7. This information should be finalised within the next three financial years (measurement period).

The following quantities of assets were included in the Municipality's fixed asset register at R0 value and no acquisition dates respectively:

DESCRIPTION	R0 VALUE	NO PURCHASE DATES	TOTAL QUANTITIES
Computer software	-	-	4
Right to use land	1	-	1
TOTAL	1	-	5

As per the table above, it is clear that great progress has been made and only one out of five intangibles assets still has to be valued.

The Municipality has applied the measurement transitional provisions for intangible assets as included in Directive 4 of the Accounting Standards Board. As a result no depreciation and impairment losses (including accumulated depreciation and impairments) were recognised in the financial statements.

	2010 R	RESTATED 2009 R
8 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade creditors	1 715 735	1 383 903
Other creditors	352 685	163 678
Staff leave accrual	777 778	261 255
Staff bonuses accrual	440 573	190 223
Balance as previously stated	-	-
Correction of error	-	190 223
Audit fees accrual	955 800	-
Accrued interest: Finance leases	20 467	10 590
Total creditors	4 263 038	2 009 649

The fair value of trade and other payables approximates their carrying amounts.

9 VALUE ADDED TAX

9.1 VAT RECEIVABLE

VAT receivable	1 111 531	225 244
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The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only declared once cash is received or actual payments are made.

10 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

10.1 Unspent Conditional Grants from other spheres of Government

Financial Management Grant	-	-
Municipal Systems Implementation Grant	28 679	131 473
Provincial Infrastructure Grant	1 207 801	-

10.2 Other Unspent Conditional Grants and Receipts

THETHA Grant	36 080	90 240
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Total Unspent Conditional Grants and Receipts

1 272 561	221 713
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See note 14 (and Appendix F) for reconciliation of grants from other spheres of government. The amounts will be recognised as revenue when the qualifying expenditure is incurred. No grants were withheld due to unfulfilled conditions.

11 FINANCE LEASE LIABILITY

2010	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	607 223	352 706	254 517
Within two to five years	1 096 651	336 459	760 193
	1 703 874	689 165	1 014 709
Less: Amount due for settlement within 12 months (current portion)			(254 517)
			<u>760 193</u>

The average lease term is 3 years and the average effective borrowing rate is 22.35%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate at 10%/15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

	2010 R	RESTATED 2009 R
11 FINANCE LEASE LIABILITY (continued)		
2009		
	Minimum lease payment	Future finance charges
	R	R
Amounts payable under finance leases		Present value of minimum lease payments
		R
Within one year	83 765	4 934
Within two to five years	29 493	927
	<u>113 259</u>	<u>5 861</u>
Less: Amount due for settlement within 12 months (current portion)		<u>(78 832)</u>
		<u>28 567</u>
<p>The average lease term is 3 years and the average effective borrowing rate is 22.35%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate at 10%/15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.</p>		
12 RENTAL INCOME		
Rental of office space	222 600	222 600
Rental of facilities	2 061	13 176
Total rental income	<u>224 661</u>	<u>235 776</u>
13 INTEREST EARNED		
Current bank account	71 549	6 237
Money market and call accounts	796 020	726 151
Outstanding receivables	56 853	20 654
Electricity deposit	2 951	2 836
Total interest	<u>927 373</u>	<u>755 878</u>
14 GAIN/(LOSS) ON DISPOSAL OF ASSETS		
Proceeds from sale of assets	238 545	-
Less book value of disposed assets	(175 941)	(4 293 956)
Cost price	(175 941)	(4 293 956)
Less accumulated depreciation	-	-
Gain/(Loss) on disposal of assets	<u>62 603</u>	<u>(4 293 956)</u>
<p>The Municipality has applied the measurement transitional provisions for property, plant and equipment as included in Directive 4 of the Accounting Standards Board. As a result no depreciation and impairment losses (including accumulated depreciation and impairments) were recognised in the financial statements.</p> <p>Refer to note 6 and note 7 for further details and progress on the transitional provisions applied.</p>		
15 GOVERNMENT GRANTS AND SUBSIDIES		
Unconditional Grants	21 210 750	15 961 900
Equitable share	12 010 750	10 099 755
COGTA and Treasury Financial Assistance Grant	9 200 000	5 862 145
As previously stated	-	5 684 236
Correction of error	28.7	177 909

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

	2010 R	RESTATED 2009 R
15 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Conditional Grants	3 613 709	1 718 287
Financial Management Grant	1 000 000	500 000
Municipal Systems Implementation Grant	780 350	603 527
Provincial Infrastructure Grant	1 392 199	-
THETHA Grant	441 160	614 760
Total Government Grant and Subsidies	24 824 459	17 680 187
No grants were withheld due to unfulfilled conditions.		
15.1 Equitable Share		
Balance unspent at beginning of year	-	-
Current year accrued	12 010 750	10 099 755
Conditions met - transferred to revenue	(12 010 750)	(10 099 755)
Conditions still to be met - remain liabilities (see note 10)	-	-
Equitable share has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.		
15.2 COGTA and Treasury Financial Assistance Grant		
Balance unspent at beginning of year	-	862 145
Current year receipts	9 200 000	5 000 000
Conditions met - transferred to revenue	(9 200 000)	(5 862 145)
Conditions still to be met - remain liabilities (see note 10)	-	-
The financial assistance grant has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.		
15.3 Financial Management Grant (FMG)		
Balance unspent at beginning of year	-	-
Current year receipts	1 000 000	500 000
Conditions met - transferred to revenue (operating expenditure)	(1 000 000)	(500 000)
Conditions still to be met - remain liabilities (see note 10)	-	-
The purpose of the grant is to promote and support reforms to financial management and implementation of the Municipal Finance Management Act (MFMA)		
15.4 Municipal Systems Infrastructure Grant (MSIG)		
Balance unspent at beginning of year	131 473	-
Current year receipts	735 000	735 000
Conditions not met - returned to National Treasury	(57 444)	-
Conditions met - transferred to revenue	(780 350)	(603 527)
Conditions still to be met - remain liabilities (see note 10)	28 679	131 473
The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the local Government Municipal Systems Act of 2000.		

	2010 R	RESTATED 2009 R
15 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
15.5 Provincial Infrastructure Grant (PIG)		
Balance unspent at beginning of year	-	-
Current year receipts	2 600 000	-
Conditions met - transferred to revenue	(1 392 199)	-
Conditions still to be met - remain liabilities (see note 10)	<u>1 207 801</u>	<u>-</u>
The grant is used to subsidise municipal capital budget to eradicate backlogs in municipal infrastructure. The grant was specifically allocated for the completion of the sewerage treatment network which will later be transferred to Kopanong Local Municipality at no cost.		
15.6 THETHA Grant		
Balance unspent at beginning of year	90 240	-
Current year receipts	387 000	705 000
Conditions met - transferred to revenue	(441 160)	(614 760)
Conditions still to be met - remain liabilities (see note 10)	<u>36 080</u>	<u>90 240</u>
Grant will be used for Capacity Building of the Municipality.		
15.7 Total Grants		
Balance unspent at beginning of year	221 713	862 145
Current year receipts	25 932 750	17 039 755
Conditions not met - returned to National Treasury	(57 444)	-
Conditions met - transferred to revenue	(24 824 459)	(17 680 187)
Conditions still to be met - remain liabilities (see note 10)	<u>1 272 561</u>	<u>221 713</u>
15.8 Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
16 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	10 391 992	5 580 401
Employee related costs - Contributions for UIF, pensions and medical aids	1 800 591	751 107
Travel, motor car, accommodation, subsistence and other allowances	1 735 154	661 480
Housing benefits and allowances	100 080	123 784
Bonuses under remuneration	793 316	495 025
Total Employee Related Costs	<u>14 821 133</u>	<u>7 611 796</u>
Remuneration of the Municipal Manager		
Annual Remuneration	526 832	300 299
Bonuses under remuneration	29 870	-
Travel, motor car, accommodation, subsistence and other allowances	266 300	175 822
Contributions to UIF, Medical and Pension Funds	50 407	31 122
Total	<u>873 409</u>	<u>507 243</u>
Remuneration of the Chief Finance Officer		
Annual Remuneration	454 985	366 322
Bonuses under remuneration	37 915	30 527
Travel, motor car, accommodation, subsistence and other allowances	198 400	186 781
Contributions to UIF, Medical and Pension Funds	7 994	1 497
Total	<u>699 294</u>	<u>585 127</u>

	2010 R	RESTATED 2009 R
16 EMPLOYEE RELATED COSTS (continued)		
Remuneration of the Corporate Director		
Annual Remuneration	385 636	529 131
Bonuses under remuneration	12 638	37 528
Travel, motor car, accommodation, subsistence and other allowances	116 558	215 393
Contributions to UIF, Medical and Pension Funds	11 100	1 248
Total	525 933	783 300
Remuneration of the Director: Planning and Development		
Annual Remuneration	254 497	-
Bonuses under remuneration	20 397	-
Travel, motor car, accommodation, subsistence and other allowances	63 120	-
Contributions to UIF Medical and Pension Funds	27 970	-
Total	365 984	-
17 REMUNERATION OF COUNCILLORS		
Mayor	588 321	254 477
Speaker	466 452	354 415
Mayoral Committee allowances	955 218	343 057
Councillors' allowances	375 768	700 100
Total Councillors' Remuneration	2 385 759	1 652 050
In-kind Benefits		
The Mayor and Speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.		
The salaries and allowances of the councillors are within the limits as prescribed by the Remuneration of Public Office Bearers Act, 1998 (No. 20 of 1998).		
18 DEPRECIATION AND AMORTISATION EXPENSE		
Property, plant and equipment	-	-
Finance leased assets	-	-
Intangible assets	-	-
Total Depreciation and Amortisation	-	-
Refer to note 6 and 7 for the measurement transitional provisions applied regarding the measurement of Property, plant and equipment and intangible assets.		
19 REPAIRS AND MAINTENANCE		
Furniture and equipment	167 026	47 679
Computer equipment	115 861	36 434
Building	1 488 141	65 458
Motor vehicles	149 504	122 803
Total repairs and maintenance	1 920 532	272 374
During the financial year, the municipality started a major repair project on the administrative building disclosed in note 6 to the financial statements. This involved re-painting of the walls and major repairs to the roof of the building. However all these building repairs expenses were not capitalised as no improvements were done to the building, the asset (building) was only brought back to its original state.		

		2010 R	RESTATED 2009 R
20	FINANCE COSTS		
	Finance lease liabilities	114 575	3 945
	Other	7 171	260
	Total Finance Costs	<u>121 746</u>	<u>4 205</u>
21	CASH AND CASH EQUIVALENTS		
	Cash and cash equivalents included in the cash flow statement comprise the following:		
	Favourable bank balances and cash	6 013 417	10 477 349
	Unfavourable bank balances	-	-
	Net cash and cash equivalents (net of bank overdrafts)	<u>6 013 417</u>	<u>10 477 349</u>
	Refer to note 1 for more details on cash and cash equivalents		
22	GENERAL EXPENSES		
	Included in general expenses are the following:-		
	Advertising	396 192	282 669
	Assets written off	149 771	-
	Audit fees	1 749 115	887 676
	Bank charges	33 243	19 382
	Bursaries	131 860	3 098
	Conferences and delegations	16 700	5 250
	Consulting fees	570 689	40 026
	Donations	528 447	-
	Disaster management	196 990	-
	Entertainment	414 473	218 486
	Fuel and oil	280 805	127 578
	Insurance	149 124	145 149
	Legal expenses	113 746	158 164
	Licence fees - vehicles	4 295	921
	Licence fees - computers	16 547	-
	Membership fees	-	120 000
	Operating grant expenditure	1 638 722	1 004 660
	Postage	4 706	1 233
	Printing and stationery	310 719	156 093
	Professional fees	57 088	686 951
	Security costs	8 068	3 035
	Telephone cost	702 354	641 280
	Training	315 893	51 392
	Travel and subsistence	1 521 325	309 406
	Water and electricity	66 138	266 070
	Other expenses	853 624	617 315
	Total general expenditure	<u>10 230 632</u>	<u>5 745 834</u>

	2010 R	RESTATED 2009 R
23 OPERATING GRANT EXPENDITURE		
Equitable Share	12 010 750	10 099 755
COGTA Financial Assistance Grant	9 200 000	5 862 145
Financial Management Grant	1 000 000	301 495
Municipal Systems Implementation Grant	780 350	703 166
Provincial Infrastructure Grant	1 392 199	-
THETHA Grant	441 160	614 760
Less grant expenses already included in operating expenses		
Equitable Share	(12 010 750)	(10 099 755)
COGTA Financial Assistance Grant	(9 200 000)	(5 862 145)
Financial Management Grant	(390 675)	-
Municipal Systems Implementation Grant	(74 953)	-
Provincial Infrastructure Grant	(170 972)	-
THETHA Grant	(117 160)	(614 760)
Less capitalised grant expenses		
Provincial Infrastructure Grant	(1 221 227)	-
Total operating grant expenditure	<u>1 638 722</u>	<u>1 004 660</u>
24 CASH RECEIVED FROM CUSTOMERS, GOVERNMENT AND OTHERS		
Total revenue	26 043 569	18 738 828
Adjusted for items presented separately:		
Gain on disposal of assets	(238 545)	-
Interest earned	(927 373)	(755 878)
Revenue before changes in working capital:	<u>24 877 651</u>	<u>17 982 950</u>
Changes in working capital		
(Increase)/decrease in trade receivables	(20 102)	(439 990)
(Increase)/decrease in sundry receivables	(803 338)	(565 892)
(Increase)/decrease in VAT receivable	(886 287)	(95 281)
Cash received from customers, government and others	<u>23 167 924</u>	<u>16 881 788</u>
25 CASH PAID TO SUPPLIERS AND EMPLOYEES		
Total expenditure	(29 844 611)	(19 645 178)
Adjusted for items presented separately:		
Assets written off	149 771	-
Finance costs	121 746	4 205
Loss on disposal of assets	-	4 293 956
Expenditure before changes in working capital:	<u>(29 573 095)</u>	<u>(15 347 017)</u>
Changes in working capital		
Increase/(decrease) in conditional grants and receipts	1 050 847	(640 432)
Increase/(decrease) in trade payables	2 280 747	1 372 542
Cash paid to suppliers and employees	<u>(26 241 500)</u>	<u>(14 614 907)</u>
26 CASH GENERATED BY OPERATIONS		
(Deficit)/Surplus for the year	(3 801 043)	(906 350)
Adjustment for:-		
Assets written off	149 771	-
Finance costs	121 746	4 205
Gain on disposal of assets	(238 545)	-
Interest earned	(927 373)	(755 878)
Loss on disposal of assets	-	4 293 956
Operating surplus before changes in working capital: carried forward	<u>(4 695 444)</u>	<u>2 635 933</u>

	2010 R	RESTATED 2009 R
26	CASH GENERATED BY OPERATIONS (continued)	
	Operating surplus before changes in working capital: brought forward	2 635 933
	(4 695 444)	
	Changes in working capital	
	(Increase)/decrease in inventories	-
	(Increase)/decrease in trade receivables	(439 990)
	(Increase)/decrease in sundry receivables	(565 892)
	(Increase)/decrease in VAT receivable	(95 281)
	Increase/(decrease) in conditional grants and receipts	(640 432)
	Increase/(decrease) in trade payables	1 372 542
	2 280 747	1 372 542
	Cash generated by/(utilised in) operations	2 266 881
	(3 073 576)	2 266 881
27	CHANGE IN ACCOUNTING POLICY	
	The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies. These changes were accounted for in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.	
27.1	Motheo asset share reserve	
	The Municipality previously had an asset share reserve that was allowable in terms of IMFO. However fund accounting is not allowed in terms of GRAP and accordingly the reserve was unbundled to accumulated surplus.	
	The effect on the financial statements is as follows:	
	Decrease in Motheo asset share reserve	5 861 916
	Increase in accumulated surplus (opening balance)	(5 861 916)
27.2	Loans redeemed and other capital receipts	
	In terms of GRAP, loans redeemed and other capital receipts that were allowed in terms of IMFO should be unbundled to accumulated surplus on first time adoption of GRAP. Accordingly the municipality unbundle the balance (including movement) of the loans redeemed and other capital receipts to accumulated surplus.	
	The effect on the financial statements is as follows:	
	Decrease in loans redeemed and other capital receipts	18 887 967
	Decrease in contributions to fixed assets	(178 786)
	Increase in accumulated surplus (opening balance)	(18 709 181)
27.3	Property, plant and equipment	
	The municipality changed its capitalisation threshold as per the municipality fixed asset policy from R5,000 to R1,000 during the current financial year. This change applied retrospectively and as a result assets not previously recognised were recognised in the financial statements.	
	The effect on the financial statements is as follows:	
	Increase in other assets (PPE)	142 364
	Decrease in repairs and maintenance	(13 946)
	Increase in accumulated surplus (opening balance)	(128 418)

	2010 R	2009 R
27.4 Accumulated Depreciation & PPE		
In the current financial year the Municipality changed its reporting framework from IMFO to GRAP in line with Directive 5 issued by the Accounting Standards Board. In terms of GRAP PPE is measured at cost less accumulated depreciation and impairment losses. However due to the Municipality applying transitional provisions as stated in note 6 and 7, no depreciation and accumulated depreciation were recognised for the current and prior financial years.		
<i>The effect on the financial statements is as follows:</i>		
Effect in accumulated surplus (opening balance)		-
27.5 Unspent conditional grants reclassified from payables		
In terms of IMFO basis of accounting unspent conditional grants at year end were classified as part of payables. However these are now classified separately on the face of statement of financial position in terms of GRAP.		
<i>The effect on the financial statements is as follows:</i>		
Increase in unspent conditional grants		(221 713)
Decrease in other creditors		221 713
Effect in accumulated surplus (opening balance)		-
27.6 Government grants and subsidies (revenue)		
The municipality previously recognised actual cash received for equitable share as revenue. However in terms of GRAP that should have been recognised on a time apportionment basis. The prior year recognised revenue for equitable share was corrected to be in line with GRAP 9.		
<i>The effect on the financial statements is as follows:</i>		
Increase in Government grants and subsidies		(485 750)
Increase in other debtors		2 889 250
Increase in accumulated surplus (opening balance)		(2 403 500)
27.7 Finance lease assets and liabilities reclassified from leases		
Office equipment leased was incorrectly treated as an operating lease instead of a finance lease. The 2009 financial statements have been restated to correct this error. The effect of the restatement is summarised below:		
<i>The comparative amount has been restated as follows:</i>		
Increase in finance charges on finance lease		3 945
Increase in depreciation on finance leased asset		-
Decrease in leasing and hiring costs on finance lease asset		(54 362)
Net effect on surplus/(deficit) for the year		<u>(50 417)</u>
Increase in finance lease liability		(107 398)
Increase in finance lease asset cost		187 427
Increase in lease accrual		(10 590)
Finance lease asset accumulated depreciation		-
Net effect on Statement of Financial Position		<u>69 439</u>
Net effect on Accumulated surplus opening balance		<u>19 022</u>

R

R

28 CORRECTION OF ERROR

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

28.1 Bonus accrual not previously recognised

Bonus accrual for the prior years was incorrectly not recognised in the financial statements.

The effect on the financial statements is as follows:

Increase in staff costs (employee bonus)	190 223
Increase in bonus accrual	(190 223)
Effect in accumulated surplus (opening balance)	-

28.2 Trade and other receivables

The outstanding debt of Kopanong Local Municipality debtor in the prior year was recognised at an incorrect amount in the financial statements. A reconciliation was performed in the current financial year and resulted in the change in the balance receivable from Kopanong.

The VAT receivable on the outstanding monthly building rental was not appropriately recognised in the VAT control account. The total VAT on the outstanding building rentals was calculated and the following adjustment was made.

The effect on the financial statements is as follows:

Increase in trade and other receivables	376 108
Decrease in trade and other receivables (VAT provision)	(144 094)
Increase in accumulated surplus (opening balance)	(232 013)

28.3 Non-current receivables

The outstanding motor loans balance from ex-employees in the prior year was recognised at an incorrect amount on the financial statements. This is due to the interest on outstanding loan balances not being recognised for the prior financial years. The prior year financial statements have been restated to correct this error.

The effect on the financial statements is as follows:

Increase in non-current receivables	34 379
Increase in interest income	(17 274)
Increase in accumulated surplus (opening balance)	(17 105)

28.4 Cash and cash equivalents

A minor difference existed between the trial balance and bank statement balance of the Municipality's investments in the prior financial year. The prior year financial statements have been restated to correct this error.

The effect on the financial statements is as follows:

Decrease in cash and cash equivalents	(12)
Decrease in accumulated surplus (opening balance)	12

XHARIEP DISTRICT MUNICIPALITY

37

NOTES TO THE FINANANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	RESTATED
2010	2009
R	R

28 **CORRECTION OF ERROR (continued)**

28.5 **Provision for impairment of debtors**

Provision for impairment of debtors was erroneously not provided for in the prior years. This is because the conditions that indicated doubt in recoverability of debts had already existed in the prior years.

The effect on the financial statements is as follows:

Increase in impairment of debtors provision	(406 809)
Increase in bad debt expense	64 962
Decrease in accumulated surplus (opening balance)	341 846

28.6 **Trade and other payables**

The outstanding creditor for the municipal services provided by Kopanong Local Municipality in the prior year was recognised at an incorrect amount on the financial statements. A reconciliation was performed in the current financial year and resulted in the change in the balance payable to Kopanong.

The effect on the financial statements is as follows:

Increase in municipal services expense	228 440
Increase in trade and other payables	(840 394)
Increase in trade and other receivables (VAT provision)	103 206
Decrease in accumulated surplus (opening balance)	508 747

28.7 **Unspent conditional grants and receipts**

Financial assistance grant from Free Statement Provincial Department of Treasury and COGTA was erroneously accounted for as a conditional grant. However this grant has no conditions and is actually a top-up of equitable share.

The effect on the financial statements is as follows:

Increase in conditional grants revenue	(177 909)
Decrease in unspent conditional grants and receipts	177 909
Effect in accumulated surplus (opening balance)	-

28.8 **Accruals reclassified from provisions**

The following accruals were incorrectly classified as provisions on the financial statements. The prior year financial statements have been restated to correct this error.

The effect on the financial statements is as follows:

Decrease in provisions	261 255
Increase in trade and other payables (accruals)	(261 255)
Staff leave accrual	(261 255)
Audit fees accrual	-
Effect in accumulated surplus (opening balance)	-

28 **CORRECTION OF ERROR (continued)**

28.9 **Property, plant and equipment**

Property of the Municipality (Calebe Motshabi Stadium) was disposed in the 2008/09 financial year for no consideration to Kopanong Local Municipality. However the stadium was erroneously not derecognised in the financial statements of the Municipality. The prior year financial statements have been restated to correct this error.

The effect on the financial statements is as follows:

Decrease in property, plant and equipment	(4 293 956)
Increase in loss on disposal of assets	4 293 956
Effect in accumulated surplus (opening balance)	-

28.10 **Sundry receivables**

The prior year interest on the electricity deposit held at Centlec (Pty) Ltd was erroneously not recognised in the prior financial statements. The prior year financial statements have been restated to correct this error.

The effect on the financial statements is as follows:

Increase in interest received	(2 836)
Increase in sundry receivables	14 928
Increase in accumulated surplus (opening balance)	(12 092)

28.11 **Property, plant and equipment**

The prior year leased assets (operating lease) were erroneously capitalised in terms of IMFO using the market values of the assets leased. The prior year financial statements have been restated to correct this error.

The effect on the financial statements is as follows:

Decrease in leased assets	(63 771)
Decrease in accumulated surplus (opening balance)	63 771

29 **GRAP AND OTHER ADJUSTMENTS RECONCILIATIONS**

29.1 **Net effect on surplus/(deficit) for the year**

Net surplus as previously stated	2 944 312
Net GRAP adjustments and other adjustments	(3 850 664)
Unconditional grant incorrectly accounted for as conditional grant	177 909
Property, plant and equipment reclassified from repairs and maintenance	13 946
Bonus accrual movement not previously recognised	(190 223)
Unbundling of loans redeemed and other capital receipts	178 786
Government grants and subsidies	485 750
Interest received adjustment car loans	17 274
Interest received adjustment (electricity deposit)	2 836
Bad debt expense adjustment	(64 962)
Loss on disposal of assets not previously recognised	(4 293 956)
Municipal services adjustment	(228 440)
Finance lease assets and liabilities reclassified from leases	50 417
Net deficit as per statement of financial performance	(906 351)

29 **GRAP AND OTHER ADJUSTMENTS RECONCILIATIONS (continued)**

29.2 **Net effect on accumulated surplus/(deficit)**

Accumulated surplus as previously stated	1 471 987
Net GRAP adjustments and other adjustments	26 468 870
Unbundling of loans redeemed and other capital receipts	18 709 181
Unbundling of motheo asset share reserve	5 861 916
Government grants and subsidies	2 403 500
Trade and other receivables balance adjustment	232 013
Provision for impairment of debtors not previously recognised	(341 846)
Trade and other payables balance adjustment	(508 747)
Non-current receivables balance adjustment	17 105
Cash and cash equivalents balance adjustment	(12)
Recognition of assets not previously recognised	128 418
Reversal of operating lease assets incorrectly capitalised under IMFO	(63 771)
Sundry receivables balance adjustment	12 092
Finance lease assets and liabilities reclassified from leases	19 022
Accumulated surplus as per the statement of changes in net assets	27 940 857

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

30

30.1 **Unauthorised expenditure**

Reconciliation of unauthorised expenditure		
Opening balance	462 781	-
Unauthorised expenditure current year	2 934 185	462 781
Approved by Council or condoned		
- Prior year	(462 781)	-
- Current year	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	2 934 185	462 781

The unauthorised expenditure relates to the unbudgeted expenditure during the financial year.

Full report is to be given to Council for condonement at the next possible Council meeting.

30.2 **Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure		
Opening balance -	-	-
Fruitless and wasteful expenditure current year	6 754	-
Condoned or written off by Council	-	-
To be recovered – contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	6 754	-

The Municipality incurred interest on overdue account to the value of R6,753.89 during the financial year. This was due to cash flow challenges during the financial year and resolving of certain services billed by the service provider. A payment plan has since been finalised with the service provider to settle the outstanding balance.

No disciplinary proceedings have been instituted as this was an operational matter.

30	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (continued)		
30.3	Irregular expenditure		
	Reconciliation of irregular expenditure		
	Opening balance	449 104	-
	Irregular expenditure current year	1 803 550	449 104
	Condoned or written off by Council		
	- Prior year	(300 904)	-
	- Current year	(669 982)	-
	Transfer to receivables for recovery – not condoned	-	-
	Irregular expenditure awaiting condonement	<u>1 281 768</u>	<u>449 104</u>
	The breakdown of the above expenditure is as follows:		
	- Tax clearance certificates not obtained as per SCM policy	-	449 104
	- Sufficient quotations obtained but lowest not appointed	13 550	-
	- Tender process not followed as required by SCM policy	1 083 023	-
	- Insufficient quotations obtained as required by SCM policy	656 432	-
	- Remuneration above upper limits determined by SALGA	50 545	-
	Total irregular expenditure	<u>1 803 550</u>	<u>449 104</u>
	The irregular expenditure is still under investigation.		
31	ADDITIONAL DISCLOSURES IN TERMS OF MFMA		
31.1	Contributions to organised local government		
	Opening balance	12 500	-
	Council subscriptions	120 000	120 000
	Amount paid - current	(12 500)	(107 500)
	Amount paid - previous years	(120 000)	-
	Balance unpaid (included in payables)	<u>-</u>	<u>12 500</u>
31.2	Audit fees		
	Opening balance	102 993	-
	Current year audit fee	1 749 115	822 123
	Amount paid - current year	(793 315)	(719 131)
	Amount paid - previous years	(102 993)	-
	Balance unpaid (included in payables)	<u>955 800</u>	<u>102 993</u>
31.3	VAT		
	Opening balance	266 132	128 289
	Movement in control account	1 554 647	743 334
	VAT received/(paid) during the year	(709 248)	(605 490)
	VAT receivable/(payable) at year end	<u>1 111 531</u>	<u>266 132</u>
	VAT input receivables is shown in note 9.		
	VAT returns for the following periods were submitted late to SARS during the financial year :		
	1. June/July 2009;		
	2. Auguts/September 2009;		
	3. October/November 2009; and		
	4. February/March 2010.		
31.4	PAYE and UIF		
	Opening balance	150 243	-
	Current year payroll deductions	2 514 362	1 221 761
	Amount paid - current year	(2 289 225)	(1 071 518)
	Amount paid - previous years	(150 243)	-
	Balance unpaid (included in payables)	<u>225 137</u>	<u>150 243</u>

31 **ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)**

31.5 **Pension and Medical Aid Deductions**

Opening balance	-	-
Current year payroll deductions and Council Contributions	3 039 074	565 909
Amount paid - current year	(3 079 392)	(565 909)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	(40 317)	-

Payments for the June 2010 month were made in July 2010

31.6 **Municipal bank accounts**

Refer to note 1 to the financial statement for the additional disclosures as required by S.125(2)(a) of the MFMA in respect of each bank account held by the municipality during the financial year.

31.7 **Municipal investment accounts**

Refer to note 1 to the financial statements for the additional disclosures as required by S.125(2)(a) of the MFMA in respect of each investments held by the municipality during the financial year. For the current and prior financial year, the municipality only invested in call account and fixed deposits. These are classified as part of cash and cash equivalents as per the municipality's accounting policy.

31.8 **Councillor's arrear consumer accounts**

The Municipality had no Councillor's arrear consumer accounts at the reporting date.

31.9 **Non-Compliance with Chapter 11 of the Municipal Finance Management Act**

The municipality has assessed compliance with Chapter 11 of the MFMA and identified non-compliances as stated in note 30.3 to the financial statements.

32 **CAPITAL COMMITMENTS**

32.1 **Commitments in respect of capital expenditure**

- **Approved and contracted for**

Other assets	2 217 625	-
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- **Approved but not yet contracted for**

Other assets	658 053	-
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Total capital commitments	2 875 678	-
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This expenditure will be financed from:

- Government Grants	1 234 935	-
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- Own resources	1 640 743	-
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Total	2 875 678	-
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32.2 **Operating leases**

Operating leases – as lessor
Minimum lease payments due

Within one year	279 140	222 600
In second to fifth year inclusive	-	-
After five years	-	-
Total	279 140	222 600

Operating leases consists of the following:

A portion of the Municipality's building is held to generate rental income. The lease is a one year non-cancellable lease agreement. The property is leased out at monthly rentals of R23,261.70 (VAT incl).

33 RETIREMENT BENEFIT INFORMATION

33.1 Defined contribution plan

Xhariep District Municipality and its employees contribute to various funds which provide benefits to such employees. The retirement benefit plan is subject to the Pension Funds Act of 1956, with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income. No actuarial information was available for the funds listed below on the preparation of financial statements

33.1 Defined contribution plan (continued)

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

- Free State Municipal Pension Fund
- SAMWU National Provident Fund
- Municipal Employees Pension Fund
- South African Local Authorities Pension Fund

34 CONTINGENT LIABILITY

The Municipality had no contingent liabilities at the reporting date.

35 CONTINGENT ASSET

The Municipality had no contingent assets at the reporting date.

36 IN-KIND DONATIONS AND ASSISTANCE

The Municipality did not receive any in-kind donations and assistance during the current financial year.

37 RELATED PARTIES

Post employment benefit plan for employees of municipality and/or other related parties. Refer to note 33 for the details.

Compensation to Councillors and other key management (refer to note 16 & 17).

XHARIEP DISTRICT MUNICIPALITY
NOTES TO THE FINANANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

2010	RESTATED
R	2009
	R

38 EVENTS AFTER THE REPORTING DATE

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

39 KEY SOURCES OF ESTIMATION, UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

Provision for doubtful debts	920 467	555 659
Depreciation and impairment of assets	-	-

Based on existing knowledge, it is reasonably possible that outcomes within the next financial year that are different from assumptions made could require a material adjustment to the carrying amount of these assets or liabilities.

40 RISK MANAGEMENT

40.1 Maximum credit risk exposure

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

Financial assets exposed to credit risk at year end were as follows:

- First National Bank: Current Account	216 256	504 773
- First National Bank: Call Deposits	1 666 444	9 972 576
- First National Bank: Fixed Deposits	4 130 717	-
- First National Bank: Credit Cards	(14 104)	7 714
- Trade and other receivables	861 354	841 252

These balances represent the maximum exposure to credit risk.

40.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year	Later than one year and not later than two years
2010		
Gross finance lease obligations	(607 223)	(664 339)
Borrowings	-	-
Trade and other payables	(4 263 038)	-

	2010	RESTATED
	R	2009
		R
40 RISK MANAGEMENT (continued)		
40.2 Liquidity risk (continued)		

	Later than two years and not later than five years	Later than five years
2010		
Gross finance lease obligations	(432 927)	-
Borrowings	-	-
Trade and other payables	-	-
	Within one year	Later than one year and not later than two years
2009		
Gross finance lease obligations	(83 765)	(29 537)
Borrowings	-	-
Trade and other payables	(2 009 649)	-
	Later than two years and not later than five years	Later than five years
2009		
Gross finance lease obligations	-	-
Borrowings	-	-
Trade and other payables	-	-

40.3 Interest rate risk

The municipality's interest rate risk arises from finance lease liabilities, credit cards & investments. These are issued at variable rates and expose the Municipality to cash flow interest rate risk. Financial instruments that are issued at fixed rates expose the municipality to fair value interest rate risk.

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

- First National Bank: Current Account	216 256	504 773
- First National Bank: Call Deposits	1 666 444	9 972 576
- First National Bank: Fixed Deposits	4 130 717	-
- First National Bank: Credit Card	(14 104)	7 714
- Finance Lease Liabilities	(1 014 709)	(107 398)

40.4 Other price risk

The municipality has no exposure to changes in price risk.

41 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Appendix E.

**XHARIEP DISTRICT MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS
FOR THE YEAR ENDED 30 JUNE 2010**

APPENDIX A

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2009	Received during the period	Redeemed / written off during the period	Balance at 30 June 2010	Cost Price of Property, Plant & Equipment	Asset Capitalised	Depreciation Period	Other Costs in accordance with MFMA
			R	R	R	R	R			R
LONG-TERM LOANS										
None	N/A	N/A	-	-	-	-	-	-	N/A	-
TOTAL EXTERNAL LOANS			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			<u>-</u>

Xhariep District Municipality had no external loans as at 30 June 2009 and 30 June 2010 respectively.

APPENDIX B
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Cost / Revaluation					Accumulated Depreciation					Transfers	Carrying Value
	Opening Balance	Additions	Disposals	Revaluations	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance		
	R	R	R	R	R	R	R	R	R	R		
LAND AND BUILDINGS												
Land	-	-	-	-	-	-	-	-	-	-	-	-
Building	13 257 213	-	-	-	13 257 213	-	-	-	-	-	-	13 257 213
	13 257 213	-	-	-	13 257 213	-	-	-	-	-	-	13 257 213
OTHER ASSETS												
Furniture and equipment	239 868	109 699	-	-	349 567	-	-	-	(5 635)	(5 635)	-	343 932
Computer Equipment	422 670	596 931	(20 834)	-	998 767	-	-	-	(144 136)	(144 136)	-	854 631
Motor vehicles	317 692	297 053	(155 107)	-	459 638	-	-	-	-	-	-	459 638
Office Equipment	26 190	29 204	-	-	55 395	-	-	-	-	-	-	55 395
	1 006 421	1 032 888	(175 941)	-	1 863 367	-	-	-	(149 771)	(149 771)	-	1 713 596
WORK IN PROGRESS												
Sewerage construction	-	1 221 227	-	-	1 221 227	-	-	-	-	-	-	1 221 227
	-	1 221 227	-	-	1 221 227	-	-	-	-	-	-	1 221 227
FINANCE LEASE ASSETS												
Office Equipment	187 800	1 104 728	-	-	1 292 528	-	-	-	-	-	-	1 292 528
	187 800	1 104 728	-	-	1 292 528	-	-	-	-	-	-	1 292 528
TOTAL	14 451 434	3 358 843	(175 941)	-	17 634 335	-	-	-	(149 771)	(149 771)	-	17 484 564

XHARIEP DISTRICT MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

APPENDIX D

2009 Actual Income R	2009 Actual Expenditure R	2009 Surplus/ (Deficit) R		2010 Actual Income R	2010 Actual Expenditure R	2010 Surplus/ (Deficit) R
-	2 685 778	(2 685 778)	Council General	-	4 376 356	(4 376 356)
615 369	3 747 714	(3 132 345)	Municipal Manager	11 129	4 653 407	(4 642 278)
18 123 459	4 529 815	13 593 644	Budget and Treasury	24 577 638	8 025 369	16 552 269
-	8 681 871	(8 681 871)	Corporate Services	62 603	9 575 503	(9 512 899)
-	-	-	Planning and Development	1 392 199	3 213 977	(1 821 778)
18 738 828	19 645 178	(906 350)	TOTAL	26 043 569	29 844 611	(3 801 043)

XHARIEP DISTRICT MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE & EXPENDITURE)
FOR THE YEAR ENDED 30 JUNE 2010

APPENDIX E1

	Accrual Basis		Modified Cash Basis		Variance	Variance	Explanation of significant variances greater than 10% versus budget
	Actual 2010	Reverse non-cash items	Actual Expenses 2010	Budget 2010			
	R	R	R	R	R	%	
REVENUE							
Rental income	224 661	-	224 661	256 264	31 603		Rental revenue includes small rentals of the side halls. These were not utilised as expected during the year.
Interest earned	927 373	-	927 373	834 844	(92 529)		An increase due to improved controls with regards to revenue and investments.
Gain on disposal of assets	62 603	-	62 603	-	(62 603)		(11) PIG received late in the year.
Government grants and subsidies	24 824 459	3 343 000	28 167 459	26 708 622	(1 458 837)		100 The gain on disposal of assets was not budgeted for during the year Actuals include prior year grants for which conditions were met in current year, (5) i.e. roll-overs.
Other income	4 472	-	4 472	16 000	11 528		Other income includes sale of tender fees. In general, far less tenderers tendered than expected numbers.
TOTAL REVENUE	26 043 569	3 343 000	29 386 569	27 815 730	(1 570 839)		
EXPENDITURE BY NATURE							
Employee related costs	14 821 133	(766 873)	14 054 260	13 607 244	(447 016)		(3) Insignificant variance (below 10%) and accepted by management.
Remuneration of Councillors	2 385 759	-	2 385 759	2 377 554	(8 205)		(0) Insignificant variance (below 10%) and accepted by management.
Bad debts and impairment of debtors provision	364 808	(364 808)	-	-	-		- Not applicable
Depreciation and amortisation expense	-	-	-	-	-		- Not applicable
Repairs and maintenance	1 920 532	-	1 920 532	3 394 382	1 473 850		Underspent is a greater portion of the building renovations. These were still in progress at year end and not yet concluded. Refer to the commitments disclosure.
Finance costs	121 746	-	121 746	1 000	(120 746)		43 Due to GRAP conversion process that commenced at year end, the municipality had to recognise the finance lease expenditure in respect of the finance leases. These were not budgeted for as these were only quantified during the GRAP conversion that started after the budget was approved by council.
General expenses	10 230 632	-	10 230 632	12 316 791	2 086 158		(12 075) All Finance Lease payments were budgeted for as General Expenses. With the GRAP conversion adjustments, General Expenses were reduced and reallocated to Finance Lease Liabilities and Finance Costs.
Total operating expenditure by nature	29 844 611	(1 131 681)	28 712 930	31 696 971	2 984 041		
Capital expenditure and compilation of AFS	2 081 884	-	2 081 884	4 302 556	2 220 672		Some capital projects overlapped over the financial year end. Thus the underspending recorded.
Total expenditure by nature	31 926 495	(1 131 681)	30 794 814	35 999 527	5 204 713		
Grants and subsidies received GRAP adjustment	3 343 000						
Bad debts and impairment of debtors provision	364 808						
Employee related costs	766 873						
Leave accrual movement	516 523						
Bonus accrual movement	250 350						

XHARIEP DISTRICT MUNICIPALITY
ACTUAL VERSUS BUDGET (CAPITAL EXPENDITURE)
FOR THE YEAR ENDED 30 JUNE 2010

APPENDIX E1 (continued)

DESCRIPTION	Accrual Basis		Modified Cash Basis		Variance R	Variance %	Explanation of significant variances greater than 10% versus budget
	Actual 2010	Reverse non-cash items	Actual Expenses 2010	Budget 2010			
	R	R	R	R			
EXPENDITURE BY DEPARTMENT							
Council General	4 376 356	-	4 376 356	4 394 249	17 893		0 Insignificant and Accepted. Less spending due to delays in fully implementing certain functions like the Risk
Municipal Manager	4 653 407	-	4 653 407	6 371 925	1 718 518		27 office that were budgeted for.
Budget and Treasury	8 025 369	(364 808)	7 660 561	6 520 652	(1 139 909)	(17)	Over spending due to increases in staff component. Less spending due to delays in fully implementing certain functions like filling of
Corporate Services	9 575 503	(766 873)	8 808 630	12 001 826	3 193 196		27 vacant posts and renovations. Less spending due to delays in fully implementing certain functions like
Planning and Development	3 213 977	-	3 213 977	6 710 875	3 496 898		52 Environmental Health Activities.
Total expenditure by department	29 844 611	(1 131 681)	28 712 930	35 999 527	7 286 597		

APPENDIX E2

DESCRIPTION	Accrual Basis		Cash Basis	Cash Basis	Variance R	Variance %	Explanation of significant variances greater than 10% versus budget
	Actual 2010	Reverse non-cash items	Actual Expenses 2010	Budget 2010			
	R	R	R	R			
Furniture and equipment	138 903	-	138 903	195 525	56 622		Underspending due to some furniture and equipment purchased that did not
Fencing of cemeteries	528 447	-	528 447	598 230	69 783		29 meet the capitalisation criteria of the municipality..
Computers	596 931	-	596 931	539 748	(57 183)	(11)	Fencing of a specific cemetery was more costly than initially anticipated. Computer equipment purchased was more costly than initially anticipated.
Buildings	-	-	-	60 000	60 000		100 Major additions were only commenced after the current financial year.
Vehicles	297 053	-	297 053	297 053	(0)	(0)	Insignificant variance less than 10%.
Bicycles for remote area learners	43 580	-	43 580	12 000	(31 580)	(263)	Additional bicycles were purchased for additional learners
Sewerage network construction	1 221 227	-	1 221 227	2 600 000	1 378 773		53 Portion of the project was completed subsequent to the year end.
Total capital expenditure	2 826 142	-	2 826 142	4 302 556	1 476 414		

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003
FOR THE YEAR ENDED 30 JUNE 2010

APPENDIX E

GRANT DESCRIPTION	Balance as at 1 July 2009	Other Adjustments	Current year receipts	Operating expenditure during the year (Transferred to revenue)	Capital expenditure during the year (Transferred to revenue)	Balance as at 30 June 2010
	R	R	R	R	R	R
Provincial Government Grants						
COGTA Financial Assistance Grant	-	-	9 200 000	(9 200 000)	-	-
Provincial Treasury Grant	-	-	-	-	-	-
Provincial Infrastructure Grant	-	-	2 600 000	-	(1 392 199)	1 207 801
National Government Grants						
Equitable share	-	-	12 010 750	(12 010 750)	-	-
Financial Management Grant	-	-	1 000 000	(1 000 000)	-	0
MSIG Grant	131 473	(57 444)	735 000	(780 350)	-	28 679
Other Grants and Subsidies						
THETHA Grant	90 240	-	387 000	(441 160)	-	36 080
TOTAL	<u>221 713</u>	<u>(57 444)</u>	<u>25 932 750</u>	<u>(23 432 260)</u>	<u>(1 392 199)</u>	<u>1 272 561</u>