



Emthanjeni Local Municipality
Annual financial statements
for the year ended 30 June 2009

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

General Information

Legal form of entity	Emthanjeni Local Municipality is a local municipality performing the functions as set out in the Constitution.(Act no 105 of 1996).
Nature of business	The municipality provides sustainable, effective and efficient municipal services.
Jurisdiction	The municipality supplies three towns namely, De Aar, Britstown, Hanover and surrounding areas.
Members of the Executive Committee	
Mayor	Councillor BK Markman
Councillors	Councillor EP Eksteen (Speaker) Councillor C Koopman Councillor GL Nyl (Member of Executive Committee) Councillor M Malherbe Councillor AF Jafta Councillor ST Sthonga Councillor JJ Oberholzer Councillor GL Nkumbi Councillor NS Thomas Councillor S Max Councillor B Swanepoel (Member of Executive Committee) Councillor EG Hendricks Councillor GA White
Grading of local authority	Grade 3
Accounting Officer	Mr Isak Visser B.Com, HDE, CPMD
Chief Finance Officer (CFO)	Mr Moggamat Faried Manuel B.Compt
Business address	Voortrekker Street 45 De Aar 7000
Postal address	PO Box 42 De Aar 7000
Bankers	ABSA Bank Voortrekker Street, De Aar, 7000
Auditors	Auditor General - Kimberley
Attorneys	Towell & Groenewaldt Rugby House, Roper Street, Kimberley, 8301

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Abbreviations

ELM	Emthanjeni Local Municipality
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IDP	Integrated Development Plan

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SDBIP	Service Delivery and Budget Implementation Plans
SALGBC	South African Local Government Bargaining Council

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Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 7 to 55, 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, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 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.

The annual financial statements set out on pages 7 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2009 and were signed on its behalf by:

Mr Isak Visser



AUDITOR - GENERAL

Report of the Auditor General

To the Council of Emthanjeni Local Municipality

Report on the Financial Statements

This report will be inserted after the audit of the annual financial statements.

Auditor General - Kimberley

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Statement of Financial Position as at 30 June 2009

	Note(s)	2009 R	2008 R
Assets			
Current Assets			
Inventories	3	2,425,582	2,212,060
Trade receivables from exchange transactions	4	12,896,288	47,932,441
Other receivables	5	1,446,122	942,590
Operating lease asset	6	246,040	-
Current portion of receivables	7	12,180	8,705
Investments	8	7,682,376	8,762,234
Cash and cash equivalents	9	1,643,136	2,098,246
Current tax receivable	10	332,831	131,216
		26,684,555	62,087,492
Non-Current Assets			
Property, plant and equipment	11	537,022,293	8,877,771
Investment property	12	258,469	-
Intangible assets	13	186,038	-
Non-current receivables	7	62,907	78,977
		537,529,707	8,956,748
Non-Current Assets		537,529,707	8,956,748
Current Assets		26,684,555	62,087,492
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		564,214,262	71,044,240
Liabilities			
Current Liabilities			
Finance lease obligation	15	297,131	497,176
Taxes and transfers payable	16	2,758,674	5,257,282
Trade and other payables from exchange transactions	17	4,877,599	6,929,380
Provisions	18	2,971,102	2,527,763
Bank overdraft	9	1,872,487	7,387,380
Consumer deposits	19	1,554,683	1,390,401
Unspent conditional grants and receipts	20	1,507,787	2,402,021
Other non-current borrowings (Short-term portion)	21	1,317,811	1,203,780
		17,157,274	27,595,183
Non-Current Liabilities			
Finance lease obligation	15	76,777	373,908
Retirement benefit obligation	14	15,950,527	-
Provisions	18	296,069	-
Other non-current borrowings	21	4,950,316	6,268,127
		21,273,689	6,642,035
Non-Current Liabilities		21,273,689	6,642,035
Current Liabilities		17,157,274	27,595,183
Liabilities of disposal groups		-	-
Total Liabilities		38,430,963	34,237,218
Assets		564,214,262	71,044,240
Liabilities		(38,430,963)	(34,237,218)
Net Assets		525,783,299	36,807,022
Net Assets			
Reserves			
Capital replacement reserve	22	2,252,793	18,694,080
Accumulated surplus		523,530,506	18,112,942
Total Net Assets		525,783,299	36,807,022

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Statement of Financial Performance

	Note(s)	2009 R	2008 R
Revenue			
Property rates	25	10,586,770	9,984,123
Service charges	26	46,377,940	39,685,369
Property rates - penalties imposed and collection		203,369	219,821
Rental Income		513,894	334,793
Interest received - outstanding debtors		1,215,214	1,338,175
Fines		3,185,920	1,965,392
Licences and permits		1,019,902	922,530
Government grants	27	27,996,502	24,943,909
Other income		9,812,096	6,112,698
Interest received - investment	28	1,338,625	732,739
Total Revenue		102,250,232	86,239,549
Expenditure			
Employee related costs	29	34,537,507	29,367,343
Remuneration of councillors	30	2,879,953	2,568,591
Depreciation and amortisation	31	21,583,267	(99,618)
Finance costs	32	985,098	1,374,943
Bad debts	33	50,473,464	3,147,735
Collection costs		820,236	193,689
Repairs and maintenance		5,675,561	2,538,800
Bulk purchases	34	15,578,304	10,047,227
Grants and subsidies paid	35	6,348,390	5,035,540
General Expenses	36	14,085,136	25,027,894
Total Expenditure		(152,966,916)	(79,202,144)
Revenue		102,250,232	86,239,549
Expenditure		(152,966,916)	(79,202,144)
Other		-	-
(Deficit) surplus for the year		(50,716,684)	7,037,405

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Statement of Changes in Net Assets

	Share capital / contributions from owners	Capital replacement reserve	Accumulated surplus	Total net assets
	R	R	R	R
Balance at 01 July 2008	-	17,346,259	11,748,467	29,094,726
Changes in net assets				
Revolving fund contribution 2008	-	-	(672,930)	(672,930)
Other	-	1,347,821	-	1,347,821
Net income (expenses) recognised directly in net assets	-	1,347,821	(672,930)	674,891
Surplus for the year	-	-	7,037,405	7,037,405
Total recognised income and expenses for the year	-	1,347,821	6,364,475	7,712,296
Total changes	-	1,347,821	6,364,475	7,712,296
Balance at 01 July 2008	-	18,694,080	18,112,942	36,807,022
Changes in net assets				
Surplus for the year	-	-	(50,716,684)	(50,716,684)
Contributions introduced	-	2,252,793	-	2,252,793
IMFO Funds written off in terms of GRAP conversion	-	(18,694,080)	-	(18,694,080)
Transactions corrected against accumulated surplus	-	-	556,134,248	556,134,248
Total changes	-	(16,441,287)	505,417,564	488,976,277
Balance at 30 June 2009	-	2,252,793	523,530,506	525,783,299

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Note(s)

Emthanjeni Local Municipality

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Cash Flow Statement

	Note(s)	2009 R	2008 R
Cash flows from operating activities			
Cash generated from operations	37	8,942,647	2,200,086
Interest income		1,338,625	732,739
Finance costs		(812,011)	(1,374,943)
Taxes on surpluses	38	(201,615)	(449,346)
Net cash from operating activities		9,267,646	1,108,536
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(3,426,273)	(9,211,547)
Sale of property, plant and equipment	11	-	8,936,306
Sale of investments		1,079,858	-
Sale of non-current receivables		12,595	3,331
Net cash from investing activities		(2,333,820)	(271,910)
Cash flows from financing activities			
Movement in other non-current borrowings		(1,203,780)	(1,087,200)
Finance lease payments		(670,263)	871,084
Net cash from financing activities		(1,874,043)	(216,116)
Total cash movement for the year		5,059,783	620,510
Cash at the beginning of the year		(5,289,134)	(5,909,644)
Net increase (decrease) in cash and cash equivalents	9	(229,351)	(5,289,134)

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Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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 standards are summarised as follows:

Standard of GRAP

GRAP Framework	Framework for the preparation and presentation of financial statements
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	Accounting policies, changes in accounting estimates and errors
GRAP 5	Borrowing Cost
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in joint ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangible Assets
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments: Disclosures
IAS 12	Income taxes
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 39	Financial Instruments: Recognition and measurement
IAS 36	Impairment of assets
IPSAS 20	Related Parties
IPSAS 21	Impairment non-cash generating assets
GAMAP 9.29 - .35 & .39 - .54	Revenue
IGRAP 1	Applying the probability test on initial recognition of exchange revenue
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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Accounting Policies

SIC 21	Income Taxes – Recovery of Re-valued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Disclosure – Service Concession Arrangements
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
Directive 3	Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities
Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
Directive 5	Determining the GRAP Reporting Framework
ASB guide 1	Guideline on Accounting for Public Private Partnerships

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

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

These accounting policies are consistent with the previous period, except for the changes set out underneath for: First-time adoption of Generally Recognised Accounting Practices (GRAP).

1.1 First time implementation of GRAP

In accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the Municipality has adopted Standards of GRAP issued by the Accounting Standards Board during the financial year. GRAP standards are fundamentally different to the municipal accounting policies adopted in previous financial years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GRAP is set out in Note 2.

The Municipality has also taken advantage the three year transitional period granted in Directive 4 - Transitional Provisions for medium and low capacity Municipalities issued by the Accounting Standards Board for the initial adoption of GRAP 12, 16, 17 and 102.

The Municipality may have transactions, events or balances that are outside the ambit of GRAP but which are included in Standards of International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants. The Municipality has not complied with the measurement, recognition and disclosure requirements of those accounting standards.

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.

1.2 Presentation Currency

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

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Accounting Policies

1.4 Comparative Information

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

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

1.5 Investment property

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

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

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

1.6 Property, plant and equipment

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

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Accounting Policies

1.6 Property, plant and equipment (continued)

Property, plant and equipment is stated at cost, less accumulated depreciation, except land and buildings, which are revalued as indicated below. Land is not depreciated as it is deemed to have an indefinite life.

Where items of property, plant and equipment 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 except where the impairment reverses a previous revaluation.

Where impaired land and buildings are revalued, the increase in value of land and buildings are recognised as income to the extent that it reverses the impairment loss previously recognised as an expense.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on depreciable amount which is determined as cost less residual value, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:- is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment for which the historical expenditure can be directly substantiated with documentary proof, will be brought into account at cost. Where no historical information is available the depreciated replacement cost will be used to bring the asset into the financial system at fair value.

Item	Average useful life
Buildings	30
Furniture and fixtures	7 - 10
Motor vehicles	
• Specialist vehicles	10
• Other vehicles	5
Office equipment	3-7
Leasehold improvements	
• Leased Assets	22*
Infrastructure	
• Roads and paving	30
• Pedestrian Malls	30
• Electricity	20-30
• Water	15-20
• Sewerage	15-20
• Housing	30
Community	
• Improvements	30
• Recreational Facilities	20 - 30
• Security	5
Other property, plant and equipment	2-5
Bins and containers	5
Water network	15 - 20

* Leased Assets - If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset will be fully depreciated over the shorter of the lease term and its useful life, as stated in GRAP 13.

The residual value and the useful life of each asset are reviewed at each financial period-end and adjusted accordingly if necessary.

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

1.7 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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

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

Item	Useful life
Computer software	3 years

1.8 Financial instruments

INITIAL RECOGNITION

Financial instruments were initially measured at cost and not at fair value in the previous financial year as required by IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 as this requirement was exempted in terms of General Notice 522 of 2007. Financial instruments are now initially measured at fair value for the financial year ended 30 June 2009 in accordance with the requirements of IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 and IAS 8.

SUBSEQUENT MEASUREMENT

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

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available for sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading

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Accounting Policies

1.8 Financial instruments (continued)

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

Risk management of Financial assets and liabilities

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

Credit Risk:

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

Liquidity Risk:

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Risk management of Financial Assets and Liabilities were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Risk management of Financial Assets and Liabilities are presented and disclosed for the financial year ended 30 June 2009 in accordance with the requirements of IFRS 7 and IAS 8.

Subsequent measurement

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

Fair value determination

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

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

Financial instruments designated as at fair value through profit and loss

are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Financial instruments designated as available for sale

are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

Held-to-Maturity Investments

are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Loans and Receivables

are non-derivative Financial Assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value.

Trade and other receivables

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

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

Gains and losses as a result of the amortisation process and which arise on derecognition are recognised in the statement of financial performance.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.8 Financial instruments (continued)

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

Bank overdraft and borrowings

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

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

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

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit,
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit, and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

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

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

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

Financial liabilities

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

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.8 Financial instruments (continued)

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.9 Leases

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

Finance leases - lessor

The municipality recognises finance lease receivables on the statement of financial position and derecognise the asset under finance lease.

Any gain or loss on derecognition is recognised through the statement of financial performance.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases – lessee

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

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

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

Operating leases - lessor

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

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

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

Operating leases – lessee

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

Accounting Policies

1.9 Leases (continued)

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

1.10 Inventories

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

Inventories are measured at the lower of cost and net realisable value on the weighted average basis.

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

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

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

1.11 Impairment of non-financial assets

The municipality assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable 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.
- tests goodwill acquired in a business combination for impairment annually.

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

The recoverable 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 amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable 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 to the extent that there is revaluation in the statement of changes in net assets.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

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

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.11 Impairment of non-financial assets (continued)

periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill 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 other than goodwill is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.12 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

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

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

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

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

Other post retirement obligations

The municipality provides post-retirement health care benefit and gratuities upon retirement to some retirees.

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

1.13 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

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

1.14 Government grants

Government grants are recognised when there is reasonable assurance that:

- the municipality will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the income statement (separately).

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.14 Government grants (continued)

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

1.15 Investment income

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

1.16 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

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

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

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

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

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

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

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

1.20 Reserves

Capital replacement reserve (CRR)

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.20 Reserves (continued)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised. Interest earned on the investment must be capitalised to the CRR through the accumulated surplus/(deficit).

Revaluation reserve

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

1.21 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.

1.22 Related Parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. It includes full-time councillors, being the Mayor, Speaker and members of the Executive Committee. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.23 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1.24 Revenue

Revenue from Exchange Transactions

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

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

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest and rentals are recognised on a time proportion basis.

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

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.

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

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

Revenue from public contributions 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 is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised

Revenue from non-exchange transactions

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

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

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 are brought into use.

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.

1.25 Events after the reporting date

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note to the financial statements.

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
2. Changes in accounting policy		
<p>The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards. These standards are as per Accounting Policy 1. Presentation of Annual Financial Statements</p>		
<p>The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2008 is as follows:</p>		
Statement Of Financial Position		
Property, plant and equipment		
Adjustment - Revaluation of Assets	341,370,867	-
Loans redeemed and other capital receipts written off to GRAP	201,231,551	-
	542,602,418	-
Post retirement medical liabilities		
Adjustment	-	(14,342,345)
Stock on hand - Water		
Adjustment	-	1,708,387
VAT Received - previous years		
Adjustment	(1,856,854)	-
IMFO Funds written off		
Previously stated	(18,699,732)	-
Adjustment	18,699,732	-
	-	-
Intangible Assets		
Adjustment	218,901	-
Statement Of Financial Performance		
Water stock		
Adjustment	-	(1,708,387)
Contribution Revolving Fund written back		
Previously stated	-	672,930
Adjustment	-	(672,930)
	-	-
3. Inventories		
Water	1,860,909	1,708,386
Stores, materials and fuels	564,673	503,674
	2,425,582	2,212,060

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
4. Trade receivables from exchange transactions		
Gross balances		
Rates	2,469,779	6,584,378
Electricity	8,365,801	10,233,608
Water	10,010,101	16,380,336
Sewerage	3,803,542	11,056,361
Refuse	1,061,149	6,584,549
Regional services levies	673,433	594,475
Housing rental	33,966	70,017
Other (specify)	296,896	2,124,219
	26,714,667	53,627,943
Less: Provision for bad debts		
Rates	(1,210,518)	(738,707)
Electricity	(3,234,455)	(2,470,139)
Water	(5,912,715)	(1,116,888)
Sewerage	(2,224,043)	(898,181)
Refuse	(505,203)	(470,448)
Regional services levies	(492,276)	-
Housing rental	(133,002)	(1,139)
Other (specify)	(106,167)	-
	(13,818,379)	(5,695,502)
Net balance		
Rates	1,259,261	5,845,671
Electricity	5,131,346	7,763,469
Water	4,097,386	15,263,448
Sewerage	1,579,499	10,158,180
Refuse	555,946	6,114,101
Regional services levies	181,157	594,475
Housing rental	(99,036)	68,878
Other (specify)	190,729	2,124,219
	12,896,288	47,932,441
Rates		
Current (0 -30 days)	478,290	(570,198)
31 - 60 days	163,045	644,945
61 - 90 days	135,720	253,872
91 - 120 days	1,692,724	6,255,758
Less: Provision	(1,210,518)	(738,706)
	1,259,261	5,845,671
Electricity		
Current (0 -30 days)	2,555,179	872,482
31 - 60 days	583,137	1,336,176
61 - 90 days	515,509	502,078
91 - 120 days	4,711,976	7,522,872
Less: Provision	(3,234,455)	(2,470,139)
	5,131,346	7,763,469
Water		
Current (0 -30 days)	1,434,823	532,763
31 - 60 days	624,919	780,592
61 - 90 days	779,954	529,121

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
4. Trade receivables from exchange transactions (continued)		
91 - 120 days	7,170,405	14,537,860
Less: Provision	(5,912,715)	(1,116,888)
	<u>4,097,386</u>	<u>15,263,448</u>
Sewerage		
Current (0 -30 days)	579,681	(100,267)
31 - 60 days	378,347	566,504
61 - 90 days	353,900	360,295
91 - 120 days	2,491,614	10,229,829
Less: Provision	(2,224,043)	(898,181)
	<u>1,579,499</u>	<u>10,158,180</u>
Refuse		
Current (0 -30 days)	306,564	(102,310)
31 - 60 days	194,462	357,014
61 - 90 days	177,591	228,103
91 - 120 days	382,532	6,101,742
Less: Provision	(505,203)	(470,448)
	<u>555,946</u>	<u>6,114,101</u>
Commonage		
Current (0 -30 days)	(15,304)	-
31 - 60 days	8,482	-
61 - 90 days	8,482	-
91 - 120 days	671,773	594,475
Less: Provision	(492,276)	-
	<u>181,157</u>	<u>594,475</u>
Housing rental		
Current (0 -30 days)	(1,516)	-
31 - 60 days	131	-
61 - 90 days	117	70,017
91 - 120 days	35,234	-
Less: Provision	(133,002)	(1,139)
	<u>(99,036)</u>	<u>68,878</u>
Other		
Current (0 -30 days)	(21,623)	2,124,219
31 - 60 days	19,956	-
61 - 90 days	8,581	-
91 - 120 days	289,982	-
Less: Provision	(106,167)	-
	<u>190,729</u>	<u>2,124,219</u>
Summary of debtors by customer classification		
Consumers		
31 - 60 days	2,483,943	-
61 - 90 days	1,454,462	-
91 - 120 days	1,547,116	-
121 - 365 days	10,947,414	-
	<u>16,432,935</u>	<u>-</u>

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
4. Trade receivables from exchange transactions (continued)		
Industrial/ commercial		
31 - 60 days	1,084,161	-
61 - 90 days	348,782	-
91 - 120 days	283,837	-
121 - 365 days	2,530,512	-
	4,247,292	-
National and provincial government		
31 - 60 days	231,092	-
61 - 90 days	159,611	-
91 - 120 days	147,886	-
121 - 365 days	1,687,598	-
	2,226,187	-
The financial system was not set up to calculate these figures for the prior year.		
Total		
Current (0 -30 days)	3,730,102	1,204,717
31 - 60 days	1,972,479	3,685,231
61 - 90 days	1,979,854	1,943,486
91 - 120 days	17,446,240	45,242,536
	25,128,675	52,075,970
Less: Provision for bad debts	(13,818,379)	(5,695,501)
	11,310,296	46,380,469
Reconciliation of bad debt provision		
Balance at beginning of the year	5,695,501	2,547,766
Contributions to provision	50,559,743	3,147,735
Bad debts written off against provision	(36,715,630)	-
	19,539,614	5,695,501
5. Other receivables		
Other debtors	1,446,122	942,590
6. Operating lease		
Certain of the municipality's assets is held to generate rental income. Rental of assets is expected to generate rental yields on an ongoing basis. Lease agreements are cancellable and have terms from 2 to 10 years.		
At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:		
Operating leases - as lessor		
Minimum lease payments due:		
Within one year	252,726	233,942
In second to fifth year inclusive	801,436	890,246
After five years	89,949	163,074
Total	1,144,111	1,287,262
7. Non-current receivables		
De Aar Country Club - Non-current portion	62,907	78,977
De Aar Country Club - Current portion	12,180	8,705

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
7. Non-current receivables (continued)	75,087	87,682
8. Investments		
Capital Replacement Reserve Investment	2,252,794	1,982,220
General Investment	5,244,630	6,618,784
Dog Tax Investment	175,748	154,844
Nyl LC Mun Housing Investment	7,034	6,385
ABSA Investment	2,170	-
	7,682,376	8,762,233
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	10,160	9,760
Bank balances	197,612	115,793
Short-term deposits	1,435,364	1,972,693
Bank overdraft	(1,872,487)	(7,387,380)
	(229,351)	(5,289,134)
Current assets	1,643,136	2,098,246
Current liabilities	(1,872,487)	(7,387,380)
	(229,351)	(5,289,134)

The municipality make use of a unsecure bank overdraft facility of R2 000 000.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2009	30 June 2008	30 June 2007	30 June 2009	30 June 2008	30 June 2007
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 185 000 00 81 - Current Account	3,586,602	(1,680,915)	(3,715,287)	(1,872,487)	(7,387,380)	(8,142,976)
Standard Bank Limited -Hanover Branch: Acc. Nr. 280350007 - Current Account	4,974	28,168	21,900	42,670	42,632	2,009,938
ABSA Bank Limited - DE AAR Branch: Acc Nr. 4061685162 - Current Account	150,942	69,061	78,836	154,942	73,161	-
ABSA bank Limited - DE AAR Branch: Acc. Nr. 9108837554 - Call Account	-	1,000	43,499	-	1,000	43,499
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9118567212 - Call Account	2,000	1,000	1,009	2,000	1,000	1,009
ABSA Bank Limited - DE AAR Branch Acc. Nr. 9126703969 - Call Account	-	1,000	5,080	-	1,000	5,080
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9133464768 - Call Account	1,014	1,223	4,178	1,014	1,223	4,178
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9135303251 - Call Account	1,000	21,714	90,293	1,000	21,714	90,293

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

					2009 R	2008 R
9. Cash and cash equivalents (continued)						
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9168828440 - Call Account	2,000	91,813	76,284	2,000	91,813	76,284
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 9180991253 - Call Account	1,001	2,353	2,290	1,001	2,353	2,290
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 9187848328 - Call Account	2,000	1,000	-	2,000	1,000	-
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 9197808413 - Call Account	2,000	883,465	-	2,000	883,465	-
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9199813620 - Call Account	34,808	152,332	-	34,808	152,332	-
ABSA Bank limited - DE AAR Branch: Acc. Nr. 9205813663 - Call Account	1,000	150,000	-	1,000	150,000	-
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9205813362 - Call Account	133,929	441,092	-	133,929	441,092	-
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 9205814279 - Call Account	51,112	224,701	-	51,112	224,701	-
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 92078822270 - Call Account	2,177	-	-	2,177	-	-
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 9222035197 - Call Account	712,617	-	-	712,617	-	-
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 9228175838 - Call Account	187,000	-	-	187,000	-	-
ABSA Bank Limited - DE AAR Branch: Acc Nr. 9223682147 - Call Account	301,705	-	-	301,705	-	-
ABSA Bank Limited - DE AAR Branch: Acc Nr. 2062198817 - Investmet Account	2,252,794	1,982,220	-	2,252,794	1,982,220	-
ABSA Bank Limited - DE AAR Branch: Acc Nr. 2062198906 - Investmet Account	5,244,630	6,618,784	5,999,079	5,244,630	6,618,784	5,999,079
ABSA Bank Limited - DE AAR Branch: Acc Nr. 2052997314 - Call Account	7,034	6,385	5,872	7,034	6,385	5,872
ABSA Bank Limited - DE AAR Branch: Acc Nr. 2062199059 - Investment Account	175,748	154,844	140,346	175,748	154,844	140,346
ABSA Bank Limited - DE AAR Branch: Acc. Nr. 2068494239 - Call Account	2,170	-	-	2,170	-	-
Total	12,860,257	9,151,240	2,753,379	7,442,864	3,463,339	234,892

10. Current tax payable (receivable)

VAT Receivable					332,831	131,216
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Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	42,917,150	-	42,917,150	10,473,111	-	10,473,111
Buildings	27,843,492	(1,608,136)	26,235,356	26,821,373	-	26,821,373
Furniture and fixtures	-	-	-	2,787,115	-	2,787,115
Motor vehicles	-	-	-	3,782,441	-	3,782,441
Office equipment	-	-	-	2,176,533	-	2,176,533
IT equipment	-	-	-	709,392	-	709,392
Infrastructure	477,622,067	(18,292,578)	459,329,489	135,838,058	-	135,838,058
Other property, plant and equipment	8,062,215	(1,056,933)	7,005,282	-	-	-
Water network	-	-	-	26,650,215	-	26,650,215
Leased infrastructure	1,411,648	(1,037,740)	373,908	1,411,648	(540,564)	871,084
Heritage	1,191,098	(29,990)	1,161,108	-	-	-
Property Plant and equipment - Loans Redeemed and other Capital Receipts	-	-	-	-	(201,231,551)	(201,231,551)
Total	559,047,670	(22,025,377)	537,022,293	210,649,886	(201,772,115)	8,877,771

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Transfers	Revaluations	Depreciation	Total
Land	10,473,111	-	(2,122,747)	34,566,786	-	42,917,150
Buildings	26,821,373	2,047,623	(3,982,471)	2,956,967	(1,608,136)	26,235,356
Furniture and fixtures	2,787,115	-	(2,787,115)	-	-	-
Motor vehicles	3,782,441	-	(3,782,441)	-	-	-
Office equipment	2,176,533	-	(2,176,533)	-	-	-
IT equipment	709,392	-	(709,392)	-	-	-
Infrastructure	135,838,058	363,480	38,999,324	302,421,205	(18,292,578)	459,329,489
Other property, plant and equipment	-	1,015,172	7,081,043	(34,000)	(1,056,933)	7,005,282
Water network	26,650,215	-	(26,650,215)	-	-	-
Leased infrastructure	871,084	-	-	-	(497,176)	373,908
Heritage	-	-	-	1,191,098	(29,990)	1,161,108
Loans Redeemed and other Capital Receipts written off in terms of GRAP conversion	(201,231,551)	-	201,231,551	-	-	-
	8,877,771	3,426,275	205,101,004	341,102,056	(21,484,813)	537,022,293

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

				2009 R	2008 R
11. Property, plant and equipment (continued)					
Reconciliation of property, plant and equipment - 2008					
	Opening Balance	Additions	Disposals	Depreciation	Total
Land	10,473,111	-	-	-	10,473,111
Buildings	26,007,228	814,145	-	-	26,821,373
Furniture and fixtures	1,832,623	954,492	-	-	2,787,115
Motor vehicles	3,713,941	68,500	-	-	3,782,441
Office equipment	2,139,489	84,101	(47,057)	-	2,176,533
IT equipment	438,464	270,928	-	-	709,392
Infrastructure	130,824,554	5,013,504	-	-	135,838,058
Water network	26,055,986	594,229	-	-	26,650,215
Leased infrastructure	-	1,411,648	-	(540,564)	871,084
Loans redeemed and other Capital Receipts	(192,342,302)	-	(8,889,249)	-	(201,231,551)
	9,143,094	9,211,547	(8,936,306)	(540,564)	8,877,771

Revaluations

The effective date of the revaluations of PPE was 30 June 2008. Revaluations were performed by Combined Systems (Infrastructure) and Daniel Benjamin Grobler (Professional Associated Valuer, Member of the S.A Institute of Valuers and Member of the Council for the Property Valuers Profession, Professional Registration number 2311), from Anzel Trading 1024 trading as: Uluntu Valuations (Land and Buildings). Both contractors are not connected to the municipality.

Land and buildings are re-valued independently every 4 years as per the Municipal Property Rates Act, 6 of 2004.

The infrastructure was revalued using the current replacement cost to determine the fair value of infrastructure assets as no historical cost was available:

Current Replacement Costs

Fixed assets was valued using the cost of modern equivalent assets that would be installed today in order to provide the same level of service as the assets in place.

The replacement costs as at 1 July 2008 was calculated with the best information available and the sources will be disclosed.

Assets Descriptions and Classification

Since some reports are sorted alphabetically on asset description, the NATO Nomenclature (North Atlantic Treaty Organization) naming convention will be followed as far as possible. NATO requires that the most important attribute is to be the primary determinant in the asset description with the progressively less important attributes following. The asset description will therefore reflect the preponderance of common attributes in the order of importance attached to it and the degree of homogeneity with which differences between assets are regarded.

The National Treasury asset classification structure will be used as guideline and assets of Emthanjeni Local Municipality to be classified accordingly. The importance of asset classification is to ensure the correct depreciation of each item (component) with a cost that is significant in relation to the total cost of the asset.

Measurement of Cost

Fixed assets for which the historical expenditure can be directly substantiated with documentary proof, will be brought into account by the Depreciated Cost methodology. Where no historical information is available the Depreciated Replacement Cost methodology will be used to bring the assets into account.

Age & Condition Assessment

Although we are not sworn evaluators, a 'face value' assessment of the condition of the infrastructure fixed assets will be done in conjunction with the responsible asset controller of the Municipality.

If the age of the asset cannot be determined fairly reliably it will be assumed that the asset has been in use for half of its useful life.

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
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11. Property, plant and equipment (continued)

Other Information

The Municipality has taken advantage the three year transitional period granted in Directive 4 for the initial adoption of GRAP 12, 16, 17 and 102.

Municipalities are granted a period of three years, from the initial adoption of the Standards of GRAP, to measure their assets in accordance with the principles of the relevant Standards. This means that, in the year that entities initially adopt the Standards of GRAP, they should have:

- identified and correctly classified their assets between inventories, investment properties, property, plant and equipment or intangible assets;
- recognised these assets using the principles in the Standards of GRAP; and
- measured these assets either using the principles in the Standards of GRAP or at provisional amounts using the relief allowed in Directive 4.

The municipality elected to measure these assets at provisional amounts using the relief allowed in Directive 4 and will implement the following over the next three years:

- Clear or better descriptions of individual items of property, plant and equipment. (Year1)
- Department or service that uses or controls the item of property, plant or equipment. (Year1)
- Original funding source of individual items of property, plant and equipment. (Year 2)
- Identification reference for physical verification and asset management purposes. (Year 3).

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

Finance Leases

Canon (Pty) Ltd

Emthanjeni Municipality leases photocopiers, laser faxes and printers from Canon for a period of 5 years. The lease/rental agreement makes provision for monthly lease/rental payments. The commencement date of monthly lease/rentals varied but the first lease started on 01/04/2004 with the last instalment date 31 July 2010. The initial total monthly rental was R945 and last total payment for all leases is R4940. Ownership of assets will not pass to Emthanjeni Municipality but during the term of the agreement, Emthanjeni Municipality has full control and usage over the assets and has exclusive use of the assets for the full duration of the lease/rental agreement. The monthly lease/rental payments escalate at 15 % per annum since the lease/rental agreement commenced.

Reconciliation between the total minimum lease payments and their present value:

At 30 June 2009

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	38,085	2,642	40,727
Finance cost	3,072	596	3,668
Present value	35,013	2,045	37,061

At 30 June 2008

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	54,563	40,729	95,292
Finance cost	8,570	3,668	12,239
Present value	45,992	37,061	83,055

Katlego (Pty) Ltd

Emthanjeni Municipality leases photocopiers, laser faxes and printers from Katlego for a period of 3 years. The lease/rental agreement makes provision for monthly lease/rental payments. The commencement date of monthly lease/rentals varied but the first lease started on 31/01/2007 with the last instalment date 31 December 2009. The initial total monthly rental was R46173.95 and last total payment for all leases is R47 584.41 . Ownership of assets will not pass to Emthanjeni Municipality but during the term of the agreement, Emthanjeni Municipality has full control and usage over the assets and

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
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11. Property, plant and equipment (continued)

has exclusive use of the assets for the full duration of the lease/rental agreement. The monthly lease/rental payments escalate at 15 % per annum since the lease/rental agreement commenced. Reconciliation between the total minimum lease payments and their present value:

At 30 June 2009

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	250,762	0	250,762
Finance cost	8,894	0	8,894
Present value	241,868	0	241,869

At 30 June 2008

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	489,815	250,762	740,577
Finance cost	80,491	8,894	89,385
Present value	409,324	241,868	651,193

Siemens (Pty) Ltd

Emthanjeni Municipality leases a telephone system from Siemens via Centrafin for a period of 5 years. The lease/rental agreement makes provision for monthly lease/rental payments. The commencement date of monthly lease/rental payments was 01/03/2004 with an instalment of R3175 that remains the same throughout the lease/rental agreement term with last premium of R3175 on 31 March 2009. Ownership will not pass to Emthanjeni municipality but during the term of the agreement, Emthanjeni Municipality have full control and usage and exclusive use of the assets for the full duration of the lease/rental agreement. Reconciliation between the total minimum lease payments and their present value:

At 30 June 2009

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	0	0	0
Finance cost	0	0	0
Present value	0	0	0

At 30 June 2008

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	25,399	0	25,399
Finance cost	927	0	927
Present value	24,473	0	24,473

Konica Minolta (Pty) Ltd

Emthanjeni Municipality leases photocopier from Konica Minolta for a period of 5 years. The lease/rental agreement make provision for monthly lease/rental payments. The commencement date of monthly lease/rental payments was 01/04/2008 with an instalment of R2791 that remains the same throughout the lease/rental agreement term with last premium of R2791 on 31 March 2013. Ownership will not pass to Emthanjeni municipality but during the term of the agreement, Emthanjeni municipality have full control and usage and exclusive use of the assets for the full duration of the lease/rental agreement. Reconciliation between the total minimum lease payments and their present value:

At 30 June 2009

	Up to 1 year	1 to 5 years	Total
Amount at balance sheet date	33,497	92,117	125,615
Finance cost	13,235	17,405	30,640
Present value	20,262	74,712	94,974

At 30 June 2008

	Up to 1 year	1 to 5 years	Total
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Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
11. Property, plant and equipment (continued)		
Amount at balance sheet date	33,497	125,615
Finance cost	16,110	30,640
Present value	17,387	94,974
		159,112
		46,751
		112,363

12. Investment property

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	268,810	(10,341)	258,469	-	-	-

Reconciliation of investment property - 2009

	Opening Balance	Transfers	Accumulated depreciation	Total
Investment property transferred from PPE	-	268,810	(10,341)	258,469

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

Details of valuation

The effective date of the revaluations was 01 July 2008. Revaluations were performed by an independent valuer, Daniel Benjamin Grobler (Professional Associated Valuer, Member of the S.A Institute of Valuers and Member of the Council for the Property Valuers Profession, Professional Registration number 2311), from Anzel Trading 1024 trading as: Uluntu Valuations. Anzel Trading 1024 trading as: Uluntu Valuations are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R				
13. Intangible assets						
	2009	2008				
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	274,151	(88,113)	186,038	-	-	-

Reconciliation of intangible assets - 2009

	Opening Balance	Transfers	Amortisation	Total
Computer software, other transferred from PPE	-	274,151	(88,113)	186,038

14. Retirement benefits

Post Medical Aid Benefit Obligation

Reconciliation of the opening and closing balances of the present value of the defined benefit obligation

Description	30 June 2009
Previous opening liability	14,342,345
Current service cost	340,929
Interest cost	1,512,377
Actual benefit payments made*	(630,104)
Actuarial loss / (gain)	384,980
Closing balance	15,950,527

The amounts recognised in the Statement of Financial Performance for the current year is as follow:

Contributions paid	(630 104)
Other expenses included in staff costs	2234286

Current service costs	340929
Interest cost	1512377
Actuarial loss recognised for the period	380980

Total employee benefits	1608182
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Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
15. Finance lease obligation		
Minimum lease payments due		
- within one year	297,131	497,176
- in second to fifth year inclusive	76,777	373,908
Present value of minimum lease payments	373,908	871,084
Non-current liabilities	76,777	373,908
Current liabilities	297,131	497,176
	373,908	871,084

Canon for Photocopiers, Laserfaxes and Printers

The effective monthly instalments increased twice per financial year. The monthly instalments at the current year end amounted to R6 639.35, while commencing on 31 March 2005 with the final payments on 31 July 2010. The agreement does provide for contingent lease rent instalments.

Katlego for Photocopiers, Laserfaxes and Printers

The effective monthly instalments increased twice per financial year. The monthly instalments at the current year end amounted to R47 644.75, while commencing on 31 January 2007 with the final payments on 31 December 2009. The agreement does provide for contingent lease rent instalments. The contract was not renewed.

Siemens for Telephone Systems

The effective monthly instalments increased twice per financial year. The monthly instalments at the current year end amounted to R3174.89, while commencing on 31 March 2005 with the final payments on 31 March 2009. The agreement does provide for contingent lease rent instalments. The contract was not renewed.

Konica Minolta for Photocopier

The effective monthly instalments increased twice per financial year. The monthly instalments at the current year end amounted to R2710.54, while commencing on 1 April 2008 with the final payments on 31 March 2013. The agreement does provide for contingent lease rent instalments.

16. Taxes and transfers payable

VAT for debtors	2,758,674	5,257,282
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17. Trade and other payables from exchange transactions

Trade payables	1,271,127	1,169,007
Deposits received	165,233	154,832
Other creditors	2,227,626	4,709,787
Other Creditors - Debtors with credit balances	1,213,613	895,754
	4,877,599	6,929,380

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
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18. Provisions

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Total
Leave Provision	2,262,318	387,175	-	2,649,493
Provision for Performance Bonusses	265,445	303,365	(247,201)	321,609
Provision: Rehabilitation of Landfil Site	-	296,069	-	296,069
	2,527,763	986,609	(247,201)	3,267,171

Reconciliation of provisions - 2008

	Opening Balance	Additions	Total
Leave Provision	2,189,243	73,075	2,262,318
Provision for Performance Bonus	260,000	5,445	265,445
	2,449,243	78,520	2,527,763
Non-current liabilities		296,069	-
Current liabilities		2,971,102	2,527,763
		3,267,171	2,527,763

16.1 Performance Bonus

All employees who are employed in accordance with provisions of section 57 of the Municipal Systems Act are required, in terms of their employment contracts, to sign a performance agreement and performance plan in terms of which their performance is assessed annually. The criteria in terms of which they are assessed is linked to the I.D.P, SDBIP and their performance contracts. Strategic focus areas and key performance indicators are set out in the plan, together with targets and weightings for each target. Employees are assessed quarterly and against these targets and a final assessment is conducted at the end of the financial year. The performance bonus paid to each employee is dependant on the overall score achieved in this assessment and is subject to the approval of the Mayor and Municipal Manager.

16.2 Environmental rehabilitation: Landfill sites

Provision for reclamation of refuse landfill sites. In terms of the licensing of the landfill refuse site, council will incur rehabilitation estimated costs of R4 441 037 to restore the sites at the end of its useful lives.

16.3 Provision for Accrued Leave

The provision for accrued leave have been calculated on the stipulation of the SALGBC maximum accrued leave days of 48 days per employee.

19. Consumer deposits

Water & Electricity	1,554,683	1,390,401
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20. Unspent conditional grants and receipts

See note 27 for reconciliation of grants from National/Provincial Government.

FMG	1,000	1,000
Britstown Water Research	62,575	174,532
Housing Accreditation	-	2,290
MIG : Sewerage Fund 06/07	94,287	245,768
Diverse Parking System	27,332	152,332
Booi Mantji Housing Project	-	944,290

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Notes to the Annual Financial Statements

	2009 R	2008 R
20. Unspent conditional grants and receipts (continued)		
Neighbourhood Revitalisation	-	150,000
De Aar Taxi Rank	89,195	507,108
Fire Fighting Equipment	39,188	224,701
Secure Centre	707,212	-
Hydroponics	300,000	-
Electrification : DME	187,000	-
	1,507,789	2,402,021
21. Other non-current borrowings		
Long-term loans		
SEWERAGE R100	-	10,400
DEV BANK: ELEC R1809000 OPENING BALANCE	983,865	(610)
DEV BANK: VEH R4000000 OPENING BALANCE	481,767	2,198,565
DEV BAN ELEC R5449995 OPENING BALANCE	3,484,684	4,059,773
Less: Short term portion transferred to Current Liabilities	(1,317,811)	(1,203,780)
	3,632,505	5,064,348
22. Capital replacement reserve		
Statutory funds and other funds in terms of IMFO transferred to the Accumulated Surplus in terms of GRAP	-	18,918,782
Transferred from Accumulated Surplus in terms of GRAP	2,252,793	-
Transferred to Unspent Conditional Grants (Fire Fighting Equipment)	-	(224,702)
	2,252,793	18,694,080
23. Revaluation reserve		
<p>A revaluation of PPE was done during the year and in terms of Grap 17, paragraph 91 - " Where, on adoption of the accrual basis of accounting, an entity initially recognises property, plant and equipment on adoption of this Standard, the entity shall report the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted."</p>		
24. Revenue		
Rendering of services	57,168,079	49,889,313
Rental Income	513,894	334,793
Interest received	1,215,214	1,338,175
Fines	3,185,920	1,965,392
Licences and permits	1,019,902	922,530
Government grants	27,996,502	24,943,909
	91,099,511	79,394,112

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

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	2009	2008
	R	R

25. Property Rates

Valuations

The valuation of land was performed every ten years and the general valuation came into effect on 1 July 1994. The basic rate was 4.13c in the Rand on the value of improvements. A rebate of 40% was granted to pensioners and indigent persons with an income of R24 670 and less per year.

Uluntu Valuers were appointed to conduct general valuations as per the MPRA. Due to the delay in the valuation process, Council resolved that the MRPA be implemented on 01 July 2009 with the valuation date 01 July 2008. The process was finalised completely during the 2008/2009 financial year to enable implementation of the MPRA.

Valuations on land and buildings are performed every 4 years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September. Interest at prime plus 1% per annum and a collection fee, is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2009.

26. Service charges

Sale of electricity	19,704,845	15,866,745
Sale of water	12,348,873	11,034,113
Sewerage and sanitation charges	8,929,049	7,998,393
Refuse removal	5,395,173	4,786,118
	<u>46,377,940</u>	<u>39,685,369</u>

Emthanjeni Local Municipality

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Notes to the Annual Financial Statements

	2009 R	2008 R
27. Government grants and subsidies		
Other Government grants and subsidies	3,440,033	583,988
Equitable Share	16,882,469	13,142,037
Equitable Share: Councillor Remuneration	691,000	607,000
Municipal Systems Improvement Grant (MSIG)	735,000	734,000
Financial Management Grant (FMG)	500,000	500,000
Department of Sports and Culture	503,000	210,433
Department of Health	845,000	749,000
Department of Housing and Local Government MIG	1,700,000	-
	2,700,000	8,417,451
	27,996,502	24,943,909
Government grants\Grants and subsidies - Summary		
Balance unspent at beginning of year	2,402,021	890,227
Current-year receipts	30,695,350	26,455,702
Conditions met - transferred to revenue	(27,996,502)	(24,943,908)
Other	(3,593,081)	-
	1,507,788	2,402,021
Equitable share		
Current-year receipts	16,882,469	13,142,037
Conditions met - transferred to revenue	(16,882,469)	(13,142,037)
	-	-
Equitable Share: Councillor Remuneration		
Current-year receipts	691,000	607,000
Conditions met - transferred to revenue	(691,000)	(607,000)
	-	-
Municipal Systems Improvement Grant (MSIG)		
Current-year receipts	735,000	734,000
Conditions met - transferred to revenue	(735,000)	(734,000)
	-	-
Financial Management Grant (FMG)		
Balance unspent at beginning of year	1,000	1,009
Current-year receipts	500,000	499,991
Conditions met - transferred to revenue	(500,000)	(500,000)
	1,000	1,000
Department of Sports and Culture		
Current-year receipts	503,000	-
Conditions met - transferred to revenue	(503,000)	-
	-	-
Department of Housing and Local Government		

Emthanjeni Local Municipality

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Notes to the Annual Financial Statements

	2009 R	2008 R
27. Government grants and subsidies (continued)		
Current-year receipts	1,700,000	-
Conditions met - transferred to revenue	(1,700,000)	-
	-	-
MIG		
Balance unspent at beginning of year	245,768	425,354
Current-year receipts	2,700,000	8,237,865
Conditions met - transferred to revenue	(2,851,481)	(8,417,451)
	94,287	245,768
Department of Health		
Current-year receipts	845,000	749,000
Conditions met - transferred to revenue	(845,000)	(749,000)
	-	-
Other grants and subsidies		
Balance unspent at beginning of year	2,155,253	463,864
Current-year receipts	6,138,881	2,485,809
Conditions met - transferred to revenue	(3,288,552)	(794,421)
Other	(3,593,081)	-
	1,412,501	2,155,252
28. Investment revenue		
Interest revenue		
Investments	1,338,625	732,739
	-	-
	1,338,625	732,739

Emthanjeni Local Municipality

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Notes to the Annual Financial Statements

	2009 R	2008 R
29. Employee related costs		
Basic	23,360,545	20,460,369
Bonus	1,665,850	1,470,853
Medical aid - company contributions	1,525,086	1,389,334
UIF	241,440	201,415
WCA	26,376	573,736
SDL	283,098	-
Other payroll levies	3,963,196	3,406,967
Overtime payments	610,579	565,964
Housing benefits and allowances	179,117	150,422
Provision for leave	387,175	5,445
Other Allowances	277,670	1,010,107
Provision for senior manager performance bonuses	303,365	-
Termination benefits	1,714,010	132,731
	34,537,507	29,367,343
Remuneration of municipal manager		
Annual Remuneration	402,887	377,435
Performance Bonuses	98,681	-
Contributions to UIF, Medical and Pension Funds	68,480	63,011
Travel Allowance	155,562	142,917
Other Allowances	105,081	195,907
	830,691	779,270
Remuneration of chief finance officer		
Annual Remuneration	396,155	298,488
Performance Bonuses	81,223	-
Contributions to UIF, Medical and Pension Funds	66,771	165,746
Travel Allowance	105,840	93,600
Other allowances	109,849	5,445
	759,838	563,279
Director Infrastructure & Housing Services		
Annual Remuneration	417,652	135,300
Performance Bonuses	77,753	-
Contributions to UIF, Medical and Pension Funds	70,933	48,950
Travel allowance	99,861	30,000
Other allowances	57,694	3,150
	723,893	217,400
Corporate and human resources (corporate services)		
Annual Remuneration	299,000	325,856
Contributions to UIF, Medical and Pension Funds	63,887	131,320
Travel allowance	84,000	92,208
Other allowances	44,846	5,400
	491,733	554,784

Emthanjeni Local Municipality

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	2009 R	2008 R
30. Remuneration of councillors		
Mayor	503,163	452,451
Speaker	406,027	364,940
Councillors	1,970,763	1,142,481
Executive Committee Members	-	353,404
	<u>2,879,953</u>	<u>2,313,276</u>
31. Depreciation and amortisation		
Property, plant and equipment	21,583,267	(99,618)
32. Finance costs		
Finance leases	173,087	-
Bank	22,771	397,768
Current borrowings	789,240	909,842
Other interest paid	-	67,333
	<u>985,098</u>	<u>1,374,943</u>
33. Bad debts		
Contributions to bad-debt provision	13,844,113	3,147,735
Bad debts written off	36,715,630	-
	<u>50,559,743</u>	<u>3,147,735</u>
34. Bulk purchases		
Electricity	14,983,306	11,133,426
Water	594,998	(1,086,199)
	<u>15,578,304</u>	<u>10,047,227</u>
35. Grants and subsidies paid		
Equitable Share	16,882,469	13,142,037
Equitable Share Councillor Remuneration	691,000	607,000
MSIG	735,000	734,000
FMG	500,000	500,000
Department of Sports and Culture	503,000	210,433
Department of Health	845,000	749,000
Department of Housing and Local Government	1,700,000	-
MIG	2,700,000	8,417,451
Government grants and subsidies - Other	3,440,033	583,988
	<u>27,996,502</u>	<u>24,943,909</u>
Other subsidies		
Conditional Grants Expenditure	6,348,390	5,035,540
Grants paid to ME's	27,996,502	24,943,909
Other subsidies	6,348,390	5,035,540
	<u>21,384,673</u>	<u>19,908,369</u>

Emthanjeni Local Municipality

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Notes to the Annual Financial Statements

	2009 R	2008 R
36. General expenses		
Accounting fees	122,920	21,768
Advertising	167,984	163,712
Auditors remuneration	875,158	751,840
Bank charges	324,422	253,955
Cleaning	53,757	60,188
Consulting and professional fees	758,175	206,288
Entertainment	291,813	292,570
Insurance	628,770	739,889
Lease rentals on operating lease	379,096	875,607
Motor vehicle expenses - licences	103,824	127,820
Pest control	27,513	-
Fuel and oil	1,511,162	839,286
Postage and courier	1,110,767	896,834
Printing and stationery	296,805	312,757
Protective clothing	244,628	120,949
Security (Guarding of municipal property)	752,900	858,450
Subscriptions and membership fees	137,549	112,679
Training	63,872	-
Travel - local	1,152,985	915,740
Electricity - Departmental	829,920	595,647
Sewerage and waste disposal - departmental	246,666	222,141
Water - departmental	262,637	249,451
Conditional Grants Expense	1,581,661	9,279,606
Provision for the rehabilitation of the landfill site	296,069	-
Chemicals and water testing	48,250	-
Other expenses	1,717,775	3,176,508
Capital inventory items	98,058	3,954,209
	14,085,136	25,027,894
37. Cash generated from operations		
(Deficit) surplus before taxation	(50,716,684)	7,037,405
Adjustments for:		
Depreciation and amortisation	21,583,267	(99,618)
Interest received	(1,338,625)	(732,739)
Finance costs	985,098	1,374,943
Movements in operating lease assets and accruals	246,040	-
Movements in retirement benefit assets and liabilities	(15,950,527)	-
Movements in provisions	739,408	78,520
Other non-cash items	24,355,913	627,154
Changes in working capital:		
Inventories	(213,522)	(1,907,368)
Other receivables	(503,532)	376,685
Consumer debtors	35,036,153	(7,470,338)
Trade and other payables from exchange transactions	(2,051,782)	(622,395)
VAT	(2,498,608)	1,761,539
Unspent conditional grants and receipts	(894,234)	1,515,971
Movement in Consumer deposits	164,282	260,327
	8,942,647	2,200,086
38. Tax paid		
Balance at beginning of the year	131,216	(318,130)
Balance at end of the year	(332,831)	(131,216)
	(201,615)	(449,346)

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
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39. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	2,525,348	2,169,798
Not yet contracted for and authorised by accounting officer	1,325,818	-

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

40. Contingencies

W.J. Van der Merwe's claim (E194)

In this matter the claimant alleges that the tyres of his truck were damaged at the municipal grounds. His damages amounted to R9 875.45. No summons has been issued.

Khomanisi Developers claim (E178)

In this matter the claimant is claiming damages to the tune of R895 698.00. It is alleged that authorised members of the municipality entered certain premises rented by the claimant to the value of R895 698.00, belonging to the claimant. It is our client's case that the MEC for Housing and Local Government instructed our client to take control of the goods, which were the property of Government. It is also our case that the value of the goods that were removed amounts to R133 274.30. The possible exposure of our client, if any, is only R133 274.30. It also appears that our client has a valid defence.

41. First-time adoption of Generally Recognised Accounting Practice Standards

The municipality has applied Generally Recognised Accounting Practice to provide a starting point for the reporting under Generally Recognised Accounting Practice. On principle these standards have been applied retrospectively and the 2008 comparatives contained in these annual financial statements differ from those published in the annual financial statements published for the year ended 30 June 2008.

The date of transition was 1 July 2008 and the effect of the transition was as follows.

Reconciliation of equity at 30 June 2008

	Note	As reported under previous IMFO	Effects of transition to GRAP	GRAP
Non-current receivables		67,384	11,593	78,977
Trade and other receivables		2,492,569	1,994	2,494,563
Trade receivables from exchange transactions		41,767,007	4,613,462	46,380,469
Cash and cash equivalents		125,553	1,972,693	2,098,246
Investments		10,734,927	(1,972,693)	8,762,234
Current portion of receivables		11,593	(2,888)	8,705
Total current assets		55,131,649	4,612,568	59,744,217
Taxes and transfers payable		633,121	4,624,161	5,257,282
Finance lease obligation		-	497,176	497,176
Other non-current borrowings		1,700,956	(497,176)	1,203,780
Unspent conditional grants		2,177,320	224,701	2,402,021
Finance lease obligation (short term portion)		-	373,908	373,908
Other non-current borrowings (short term portion)		6,642,035	(373,908)	6,268,127
Total liabilities		11,153,432	4,848,862	16,002,294

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R		
41. First-time adoption of Generally Recognised Accounting Practice Standards (continued)				
Total non-current assets	67,384	11,593		
Total current assets	55,131,649	4,612,568		
Total liabilities	(11,153,432)	(4,848,862)		
Total assets less total liabilities	44,045,601	(224,701)		
Capital replacement reserve	18,918,783	(224,703)		
Reconciliation of profit or loss for 2008				
	Note	As reported under previous IMFO	Effects of transition to GRAP	GRAP
Revolving Fund Contribution		672,930	(672,930)	-
Stock (Water) recognised		-	(1,708,386)	(1,708,386)
Net deficit		672,930	(2,381,316)	(1,708,386)

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
42. Related parties		
<p>Related party relationships exist between the municipality and the following parties: Municipal Manager, Chief Finance Officer, Directors of directorates, Executive Mayor, Speaker, Councillors, Internal and Audit committee members. Close family members of the family of the abovementioned parties.</p>		
Related party balances		
<p>During the year the municipality rendered services to the following related parties that are related to the municipality as indicated.</p>		
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Members of Council	12,096	(1,994)
Member of Key management	(135)	7,576
Close family members of Key management	-	-
Audit Committee	-	-
Amounts included in Liabilities		
Post employment benefit plan for employees of municipality	15,950,527	14,342,345
Related party transactions		
Purchases from (sales to) related parties		
Members of Council	228,717	59,117
Member of Key management	115,585	108,502
Close family members of Key management	-	-
Audit Committee	25,100	15,873
Loans to(from) related parties		
Post employment benefit plan for employees of municipality	1,608,182	-
<p>The rates, service and other charges are in accordance with approved tariffs that was advertised to the public. No bad debt expenses had been recognised in respect of amounts owed by related parties.</p>		
<p>The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel.</p>		
<p>Compensation to key management personnel and councilors are set out in note 29 and note 30.</p>		
Other related party transactions		
<p>There were no other related party transactions</p>		
43. Prior period errors		
<p>Due to the first time implementation of GRAP, reclassifications of certain accounts resulted that the following corrections were necessary in terms of figures that were stated in the previous years financial statements.</p>		
<p>The correction of the error(s) results in adjustments as follows:</p>		
Statement of financial position		
Investments	-	(1,972,693)
Cash and cash equivalents	-	1,972,693
Finance lease obligation	-	497,176
Other non-current borrowings	-	(497,176)
Unspent conditional grants and receipts	-	224,701

Emthanjeni Local Municipality

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Notes to the Annual Financial Statements

	2009 R	2008 R
43. Prior period errors (continued)		
Capital replacement reserve	-	(224,701)
Finance lease obligation	-	373,908
Other non-current borrowings	-	(373,908)
Trade and other receivables	-	1,994
Consumer debtors	-	4,613,462
Current portion of receivables	-	(2,888)
Non-current receivables	-	11,593
Taxes and transfers payable	-	(4,624,161)

44. Comparative figures

Certain comparative figures have been reclassified. See Note 41.

45. Going concern

We draw attention to the fact that at 30 June 2009, the municipality had accumulated surplus of R 523,530,506 and that the municipality's total assets exceed its liabilities by R 525,783,299.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

46. Subsequent events

Sale of Assets

On 3 July 2009 an public auction was held and old and obsolete assets to the value of R69 501 was sold.

47. Unauthorised expenditure

Unauthorised expenditure	18,500,045	-
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These expenditure represent mainly the contribution to provision for bad debts. These expenditure was condoned by council.

48. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	77,473
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There was no fruitless and wasteful expenditure for the current year.

49. Irregular expenditure

Add: Irregular Expenditure - current year	264,315	-
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Irregular expenditure to the amount of R264 315 occurred during the year. These irregular expenditure relate to quotations obtained where the VAT numbers of suppliers where omitted, and also where the required three quotation were not obtained.

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
50. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	132,049	111,872
Amount paid - current year	(132,049)	(111,872)
	-	-

No amounts were outstanding at year end.

Audit fees

Opening balance	126,280	276,677
Current year subscription / fee	995,877	912,231
Amount paid - current year	(995,877)	(785,951)
Amount paid - previous years	(126,280)	(276,677)
	-	126,280

No amounts were outstanding at year end.

PAYE and UIF

Current year subscription / fee	3,588,683	3,141,978
Amount paid - current year	(3,588,683)	(3,141,978)
	-	-

No amounts were outstanding at year end. No amounts were paid in the current year in respect of previous years.

Pension and Medical Aid Deductions

Current year subscription / fee	7,344,583	480,419
Amount paid - current year	(7,344,583)	(480,419)
	-	-

No amounts were outstanding at year end. No amounts were paid in the current year in respect of previous years.

VAT

VAT payable	2,758,674	5,257,282
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2009:-

30 June 2009	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor AF Jaftha	(404)	623	219
Councillor JJ Oberholzer	(582)	1,467	885
Councillor BK Markman	570	629	1,199
Councillor J Max	1,103	10,578	11,681
Councillor M Malherbe	789	-	789
Councillor NS Thomas	262	-	262

Emthanjeni Local Municipality

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Notes to the Annual Financial Statements

		2009 R	2008 R
50. Additional disclosure in terms of Municipal Finance Management Act (continued)			
Councillor L Nkumbi	(294)	-	(294)
Councillor GL Nyl	2,698	5,547	8,245
Councillor GA White	701	3,287	3,988
	4,843	22,131	26,974
30 June 2008	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Sarah Max	295	7,069	7,364
Councillor Sipho Sthonga	90	-	90
Councillor Elijah Hendricks	80	2,552	2,632
Councillor Godfrey Nyl	507	-	507
Councillor Auburn Jafta	1,157	842	1,999
Councillor Sylvia Thomas	488	-	488
Councillor Johnny Oberholzer	-	12,702	12,702
	2,617	23,165	25,782

51. Deviation from supply chain management regulations

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

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

Deviation of the supply chain management regulations only incurred if there was not three quotations. More detail is contained in the deviation register. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

52. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (municipality treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

		2009 R	2008 R	
52. Risk management (continued)				
the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.				
At 30 June 2009	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
Long Term liabilities	1,614,940	3,521,369	1,505,724	-
Trade and other payables	4,877,599	-	-	-
Consumer Deposits	1,554,683	-	-	-
Unspent conditional government grants and receipts	1,507,787	-	-	-
At 30 June 2008	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 years
Long Term liabilities	1,700,955	4,404,352	2,237,681	-
Trade and other payables	6,929,380	-	-	-
Consumer Deposits	1,390,401	-	-	-
Unspent conditional government grants and receipts	2,402,021	-	-	-

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyse its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

The entity only deposits cash with major banks with high quality credit standing. Grants are receivable from higher order levels of government. The credit risk pertaining to these financial assets are considered to be low.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts.

Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is exposed to a number of guarantees for the overdraft facilities of Group companies and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Foreign exchange risk

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
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52. Risk management (continued)

The municipality does not hedge foreign exchange fluctuations.

Price risk

The municipality is not exposed to price risk.

FINANCIAL INSTRUMENTS

53. Financial assets by category

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

2009

	Loans and receivables	Held to maturity investments	Total
Non-current receivables	62,907	-	62,907
Investments	-	7,682,376	7,682,376
Trade and other receivables	12,896,288	-	12,896,288
Cash and cash equivalents	1,643,136	-	1,643,136
Other receivables	1,446,122	-	1,446,122
Current portion of receivables	12,180	-	12,180
	16,060,633	7,682,376	23,743,009

2008

	Loans and receivables	Held to maturity investments	Total
Non-current receivables	78,977	-	78,977
Investments	-	8,762,234	8,762,234
Trade and other receivables	47,932,441	-	47,932,441
Cash and cash equivalents	2,098,246	-	2,098,246
Other receivables	942,590	-	942,590
Current portion of receivables	8,705	-	8,705
	51,060,959	8,762,234	59,823,193

54. Financial liabilities by category

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

2009

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other non-current borrowings	4,950,316	-	-	4,950,316
Other non-current borrowings - short-term portion	1,317,811	-	-	1,317,811
Finance lease obligation	297,131	-	-	297,131
Trade and other payables	4,877,599	-	-	4,877,599
Bank overdraft	1,872,487	-	-	1,872,487
Unspent conditional grants	1,507,787	-	-	1,507,787
	14,823,131	-	-	14,823,131

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

	2009 R	2008 R
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54. Financial liabilities by category (continued)

2008

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other non-current borrowings	6,268,127	-	-	6,268,127
Other non-current borrowings - short-term portion	1,203,780	-	-	1,203,780
Finance lease obligation	491,176	-	-	491,176
Trade and other payables	6,929,380	-	-	6,929,380
Bank overdraft	7,387,380	-	-	7,387,380
Unspent conditional grants	2,402,021	-	-	2,402,021
	24,681,864	-	-	24,681,864

Emthanjeni Local Municipality

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Appendix A: Schedule of external loans

Emthanjeni Local Municipality
APPENDIX A

Monthly Rep. Per.
 Sort Rows by Mapping Numbers
 June 2009

GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2009

Loan Number	Redeemable	Balance at 30 June 2008		Received during the period		Redeemed written off during the period		Balance at 30 June 2009		Carrying Value of Property, Plant & Equip		Other Costs in accordance with the MFMA	
		Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
ANNUITY LOAN													
	2009/06/30	10,400	-	-	10,400	-	-	-	-	-	-	-	-
		10,400	-	-	10,400	-	-	-	-	-	-	-	-
DEVELOPMENT BANK OF SOUTH AFRICA													
Loan 102	2014/09/30	1,203,170	-	-	104,307	-	-	1,098,863	-	-	-	-	-
Vehicle Loan @ 10%	2010/09/30	2,198,565	-	-	818,265	-	-	1,380,300	-	-	-	-	-
Loan 202	2014/09/30	4,059,773	-	-	270,808	-	-	3,788,965	-	-	-	-	-
Electricity Loan		7,461,508	-	-	1,193,380	-	-	6,268,128	-	-	-	-	-
		7,471,908	-	-	1,203,780	-	-	6,268,128	-	-	-	-	-
TOTAL EXTERNAL LOANS													

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Supplementary Information

Appendix B: Analysis of Property, plant and equipment

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost/Revaluation				Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Under Construction Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Carrying Value Rand	Budget Additions Rand
Land/ Heritage											
Painting & Art Galleries	1,191,098	-	-	-	1,191,098	-	29,990	-	29,990	1,161,108	-
	1,191,098	-	-	-	1,191,098	-	29,990	-	29,990	1,161,108	-
Buildings											
Land	42,917,148	-	-	-	42,917,148	-	-	-	-	42,917,148	-
Buildings	24,626,898	2,047,623	1,168,971	-	27,843,492	-	1,608,136	-	1,608,136	26,235,356	-
	67,544,046	2,047,623	1,168,971	-	70,760,640	-	1,608,136	-	1,608,136	69,152,504	-
Leasehold property Investment Assets											
Buildings	268,810	-	-	-	268,810	-	10,341	-	10,341	258,469	-
	268,810	-	-	-	268,810	-	10,341	-	10,341	258,469	-
Intangible Assets											
Software	40,285	233,866	-	-	274,151	-	88,113	-	88,113	186,038	-
	40,285	233,866	-	-	274,151	-	88,113	-	88,113	186,038	-
Leased Assets											
Office equipment	1,411,648	-	-	-	1,411,648	540,564	497,176	-	1,037,740	373,908	-
	1,411,648	-	-	-	1,411,648	540,564	497,176	-	1,037,740	373,908	-
Infrastructure											
Roads	19,537,231	221,793	782,019	-	20,541,043	-	2,063,553	-	2,063,553	18,477,490	-
Sewerage Mains & Purif	25,763,335	115,457	627,831	-	26,506,623	-	1,290,912	-	1,290,912	25,215,711	-
Electricity Mains	361,242,211	7,591	204,639	-	361,454,441	-	12,382,966	-	12,382,966	349,071,475	-
Water Mains & Purification	68,994,765	18,639	106,557	-	69,119,961	-	2,555,146	-	2,555,146	66,564,815	-
	475,537,542	363,480	1,721,046	-	477,622,068	-	18,292,577	-	18,292,577	459,329,491	-

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost/Revaluation				Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Under Construction Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Carrying Value Rand	Budget Additions Rand
Community											
Other property, plant and equipment											
Office Equipment	3,793,323	207,473	-	-	4,000,796	-	608,622	-	608,622	3,392,174	-
Furniture & Fittings	1,548,527	38,440	-	-	1,586,967	-	224,187	-	224,187	1,362,780	-
Emergency Equipment	-	-	162,731	-	162,731	-	-	-	-	162,731	-
Motor vehicles	68,500	537,762	-	-	606,262	-	86,634	-	86,634	519,628	-
Plant & equipment	616,974	109,649	856,989	-	1,583,612	-	136,132	-	136,132	1,447,480	-
Other Assets	-	121,847	-	-	121,847	-	1,358	-	1,358	120,489	-
Total	6,027,324	1,015,171	1,019,720	-	8,062,215	-	1,056,933	-	1,056,933	7,005,282	-
Land/ Heritage											
Buildings	1,191,098	-	-	-	1,191,098	-	29,990	-	29,990	1,161,108	-
Investment Assets	67,544,046	2,047,623	1,168,971	-	70,760,640	-	1,608,136	-	1,608,136	69,152,504	-
Intangible Assets	268,810	-	-	-	268,810	-	10,341	-	10,341	258,469	-
Leased Assets	40,285	233,866	-	-	274,151	-	88,113	-	88,113	186,038	-
Infrastructure	1,411,648	-	-	-	1,411,648	540,564	497,176	-	1,037,740	373,908	-
Other property, plant and equipment	475,537,542	363,480	1,721,046	-	477,622,068	-	18,292,577	-	18,292,577	459,329,491	-
Total	6,027,324	1,015,171	1,019,720	-	8,062,215	-	1,056,933	-	1,056,933	7,005,282	-
Other property, plant and equipment											
Total	552,020,753	3,660,140	3,909,737	-	559,590,630	540,564	21,583,266	-	22,123,830	537,466,800	-

Emthanjeni Local Municipality

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Appendix C: Segmental analysis of Property, plant and equipment

Emthanjeni Local Municipality

APPENDIX C for the period ended 30 June 2009
June 2009

SEGMENTAL ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost/Revaluation			Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Under Construction Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Additions Rand	Closing Balance Rand	Carrying Value Rand
Executive & Council	32,583,167	-	-	-	32,583,167	-	-	-	-	32,583,167
Finance & Admin	40,724,768	365,848	-	-	41,090,616	540,564	-	3,028,962	3,569,526	37,521,090
Planning & Development	91,493	9,606	-	-	101,099	-	-	19,157	19,157	81,942
Health	-	-	-	-	-	-	-	-	-	-
Community & Social Services	1,075	2,620,553	-	-	2,621,628	-	-	153,959	153,959	2,467,669
Housing	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	162,731	-	162,731	-	-	-	-	162,731
Sport & Recreation	-	-	-	-	-	-	-	-	-	-
Environmental Protection	-	-	-	-	-	-	-	-	-	-
Waste Management	25,763,335	115,457	1,796,802	-	27,675,594	-	-	1,290,912	1,290,912	26,384,682
Road Transport	22,551,438	349,129	782,019	-	23,682,586	-	-	2,135,097	2,135,097	21,547,489
Water	68,994,765	191,957	106,557	-	69,293,279	-	-	2,558,513	2,558,513	66,734,766
Electricity	361,310,711	7,591	1,061,628	-	362,379,930	-	-	12,396,666	12,396,666	349,983,264
Other	-	-	-	-	-	-	-	-	-	-
Total	552,020,752	3,660,141	3,909,737	-	559,590,630	540,564	-	21,583,266	22,123,830	537,466,800

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

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Appendix D: Segmental Statement of Financial Performance

Emthanjeni Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Emthanjeni Local Municipality
 APPENDIX E(1) for the ended 30 June 2009
 June 2009

	Current year 2009		Prior Year # 1 2008		Current year 2009		Prior Year # 1 2008		Current year 2009		Prior Year # 1 2008		Current year 2009		Prior Year # 1 2008		Current year 2009		Prior Year # 1 2008	
	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000	Act. Bal.	R'000
Revenue																				
Other income																				
Expenses																				
Other revenue and costs																				

Emthanjeni Local Municipality

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Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2006

Additions	Under Construction	Closing Balance	Budget	Variance		Explanation of Significant Variances greater than 5% versus Budget
				Rand	%	
2,047,623	1,168,971	3,216,594	4,280,232	(1,063,638)		(33) MIG Funds withdrawn as a result of non-spending
2,047,623	1,168,971	3,216,594	4,280,232	(1,063,638)	(33)	
Land/ Heritage Buildings						
Leasehold property						
IT equipment						
233,866	-	233,866	-	233,866	100	
233,866	-	233,866	-	233,866	100	
Housing Develop Fund Infrastructure						
221,793	782,019	1,003,812	1,872,725	(868,913)	(87)	MIG Funds withdrawn as a result of non-spending
115,457	627,831	743,288	1,020,833	(277,545)	(37)	MIG Funds withdrawn as a result of non-spending
7,591	204,639	212,230	118,880	93,350	44	MIG Funds withdrawn as a result of non-spending
18,639	106,557	125,196	2,000	123,196	98	MIG Funds withdrawn as a result of non-spending
363,480	1,721,046	2,084,526	3,014,438	(929,912)	(45)	

	Additions		Under Construction Rand	Closing Balance Rand	Budget		Variance		Variance %	Explanation of Significant Variances greater than 5% versus Budget
	Rand				Rand	Rand	Rand	%		
Community										
Other property, plant and equipment										
Office Equipment	207,473	-	-	207,473	-	207,473	100			
Furniture & Fittings	38,440	-	-	38,440	-	38,440	100			
Emergency Equipment	-	162,731	-	162,731	165,000	(2,269)	(1)			
Motor vehicles	537,762	-	-	537,762	-	537,762	100			
Other	121,847	-	-	121,847	1,608,624	(1,486,777)	(1,220)		MIG Funds withdrawn as a result of non-spending	
Plant & equipment	109,649	856,989	856,989	966,638	1,209,665	(243,027)	(25)		MIG Funds withdrawn as a result of non-spending	
	1,015,171	1,019,720	1,019,720	2,034,891	2,983,289	(948,398)	(47)			
Total										
Buildings	2,047,623	1,168,971	1,168,971	3,216,594	4,280,232	(1,063,638)	(33)		MIG Funds withdrawn as a result of non-spending	
IT equipment	233,866	-	-	233,866	-	233,866	100			
Infrastructure	363,480	1,721,046	1,721,046	2,084,526	3,014,438	(929,912)	(45)		MIG Funds withdrawn as a result of non-spending	
Other property, plant and equipment	1,015,171	1,019,720	1,019,720	2,034,891	2,983,289	(948,398)	(47)		MIG Funds withdrawn as a result of non-spending	
	3,660,140	3,909,737	3,909,737	7,569,877	10,277,959	(2,708,082)	(36)			

Emthanjeni Local Municipality

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Supplementary Information

Appendix F: Disclosure of Grants and subsidies in terms of the Municipal Finance Management Act

