Tswelopele Local Municipality
(Municipal demarcation code FS183)
Annual Financial Statements
for the year ended June 30, 2011

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Providing municipal services and maintain the best interests of the local community mainly in the Tswelopele area.
Mayor	Mathibe, ME
Councillors	Matlakala, TA (Speaker)
	Moalasi, PP (Chief Whip)
	Baleni, MS
	Bonokwane, MS
	Eseu, BP
	Horn, C
	Joubert, EC
	Njodina, DA
	Nabi, TW
	Phukuntsi, KR (Previous Mayor)
	Raseu, MW
	Taedi, TT
	Taljaard, MJ
	Snyer, MM
	Coetzer, PJ (Term ended)
	Liphooko, DE (Term ended)
	Matsholo, FT (Term ended)
	Motshabi, KD (Previous Chief Whip)
	Mphirime, NE (Term ended)
	Ngexe, MJ (Term ended)
	Phara, SD (Previous Speaker)
Grading of local authority	Medium Capacity
	Grade 3 in terms of the Remuneration of Public Office Bearers Act.
Accounting Officer	K J Motlhale (Municipal Manager)
Chief Finance Officer (CFO)	J W Young
Accounting Officer	K J Motlhale
Business address	Civic Centre
	Bosman Street
	Bultfontein
	9670
Postal address	PO Box 3

General Information

	Bultfontein
	9670
Bankers	ABSA Bank Limited
Auditors	The Auditor General of South Africa

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund

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IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2011 and were signed on its behalf by:

K J Motlhale
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Cash and cash equivalents	4	7,824,931	9,104,414
Consumer debtors	5	7,265,556	8,069,574
Inventories	6	88,792	105,513
Other receivables from exchange transactions	7	167,517	1,408,278
VAT receivable	8	4,108,485	2,758,327
		19,455,281	**21,446,106**
Non-Current Assets			
Biological assets	9	1,067,100	1,534,450
Investment property	10	13,066,000	12,027,000
Property, plant and equipment	11	455,753,937	472,572,575
Other financial assets	12	212,455	212,455
		470,099,492	**486,346,480**
Total Assets		**489,554,773**	**507,792,586**
Liabilities			
Current Liabilities			
Consumer deposits	13	451,907	430,848
Finance lease obligation	15	425,729	423,525
Operating lease liability	16	3,609	-
Other current liabilities	14	416,773	234,473
Other financial liabilities	17	505,240	448,366
Trade and other payables from exchange transactions	18	16,782,805	19,013,482
Unspent conditional grants and receipts	19	2,320,438	4,150,774
		20,906,501	**24,701,468**
Non-Current Liabilities			
Finance lease obligation	15	1,383,048	1,792,096
Other financial liabilities	17	13,048,932	13,554,171
Provisions	25	3,490,500	1,946,289
		17,922,480	**17,292,556**
Total Liabilities		**38,828,981**	**41,994,024**
Net Assets		**450,725,792**	**465,798,562**
Net Assets			
Accumulated surplus		197,703,642	212,776,412
Reserves			
Revaluation reserve		253,022,150	253,022,150

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Total Net Assets		**450,725,792**	**465,798,562**

Detailed Income statement

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	20	5,067,801	4,582,235
Service charges	21	24,896,892	21,720,332
Rental of facilities and equipment		439,795	806,905
Interest received (trading)		340,586	575,699
Fines		132,844	100,449
Licences and permits		8,146	2,550
Government grants & subsidies	22	65,076,588	65,157,750
Fair value adjustment on investment property		1,039,000	1,108,000
Interdepartmental fees		-	8,804,571
Other income	23	780,377	1,602,415
Interest received - investment	24	737,655	747,840
Dividends received	24	15,359	157,956
Total Revenue		**98,535,043**	**105,366,702**
Expenditure			
Personnel	26	(30,781,719)	(26,540,726)
Remuneration of councillors		(3,722,629)	(3,654,709)
Depreciation and amortisation		(30,801,647)	(30,711,730)
Finance costs	28	(2,059,767)	(1,862,405)
Debt impairment	29	(7,359,264)	(34,118)
Repairs and maintenance		(3,129,592)	(2,107,452)
Bulk purchases	30	(17,647,016)	(14,725,039)
General Expenses	31	(17,638,829)	(23,265,452)
Total Expenditure		**(113,140,463)**	**(102,901,631)**
Fair value adjustments on biological assets		(467,350)	781,100
(Deficit) surplus for the year		**(15,072,770)**	**3,246,171**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at July 01, 2009	**253,022,150**	**209,530,241**	**462,552,391**
Changes in net assets			
Surplus/(deficit) for the period	-	3,246,171	3,246,171
Total changes	-	3,246,171	3,246,171
Balance at July 01, 2010	**253,022,150**	**212,776,412**	**465,798,562**
Changes in net assets			
Surplus/(deficit) for the period	-	(15,072,770)	(15,072,770)
Total changes	-	(15,072,770)	(15,072,770)
Balance at June 30, 2011	**253,022,150**	**197,703,642**	**450,725,792**

Cash flow statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		98,172,755	100,320,833
Interest income		737,655	1,323,539
Dividends received		15,359	157,956
		98,925,769	101,802,328
Payments			
Employee costs		(34,483,553)	(30,195,435)
Suppliers		(49,006,015)	(63,354,879)
Finance costs		(1,688,298)	(1,862,405)
		(85,177,866)	(95,412,719)
Net cash flows from operating activities	34	**13,747,903**	**6,389,609**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(14,009,826)	(1,430,502)
Proceeds from sale of property, plant and equipment	11	26,818	438,635
Net cash flows from investing activities		**(13,983,008)**	**(991,867)**
Cash flows from financing activities			
Repayment of other financial liabilities		(448,365)	(398,641)
Movement in current portion of non-current provision		182,300	-
Non-current liability		-	35,211
Finance lease payments		(778,313)	604,059
Net cash flows from financing activities		**(1,044,378)**	**240,629**
Net increase/(decrease) in cash and cash equivalents		**(1,279,483)**	**5,638,371**
Cash and cash equivalents at the beginning of the year		9,104,414	3,466,043
Cash and cash equivalents at the end of the year	4	**7,824,931**	**9,104,414**

Accounting Policies

1. Reporting municipality

Tswelopele Local Municipality ("the municipality") is a local government institution in Bultfontein town in the Lejweleputswa district, Frees State Province. Its principal activities and the address of its principal place of business and are disclosed under "General Information" in the annual report.

2. Presentation of annual financial statements

2.1 Statement of compliance

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

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

The following significant accounting policies had been applied consistently during the current and previous reporting period except to the extent that a transitional provision, as set out in note has been applied.

2.2 Going concern assumption

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

2.3 Functional and presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.4 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

2.5 Use of estimates and judgements

The preparation of financial statements in conformity with SA GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting

2.5 Use of estimates and judgements (continued)

estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements as well as assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 2.24.

2.6 Property, plant and equipment

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

Initial recognition and measurement

Items of property, plant and equipment are measured at revalued amounts, being the fair value at the date of revaluation less any accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see note 2.16).

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When the use of a property changes from owner-occupied to investment property carried at fair value using the fair value model, the property is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is treated in the same way as a revaluation in terms of GRAP 17 as follows:

- any resulting decrease in the carrying amount of the property is recognised in surplus or deficit. However, to the extent that an amount is included in a revaluation surplus for that property, the decrease is charged against that revaluation surplus.
- any resulting increase in the carrying amount is treated as follows:

2.6 Property, plant and equipment (continued)

- to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.
- any remaining part of the increase is credited directly to the revaluation surplus in net assets. On subsequent disposal of the investment property, the revaluation surplus included in net assets may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is however debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus relating to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

Subsequent cost

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 *Non-current assets held for sale and discontinued operations*. A non-current asset or disposal group is not depreciated while it is

Accounting Policies

2.6 Property, plant and equipment (continued)

classified as held for sale.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Heritage assets and land are not depreciated.

Rehabilitation costs capitalised to the cost of landfill sites are written off on a straight-line basis over the estimated useful lives of the sites.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the municipality will obtain ownership by the end of the lease term.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

The useful lives for the current and previous financial year are as follows:

Item	**Estimated useful life**
Land	Indefinite
Buildings	30 - 45 years
Infrastructure	
• Electricity	20 years
• Roads and paving	15 - 30 years
• Water	20 - 30 years
• Sewerage	20 - 30 years
Other assets	
• Computer equipment	3 years
• Furniture and fittings	6 years
• Other assets	10 years
Leased Assets	
• Office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Spare parts

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.

Derecognition

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential is expected from its continued use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the

2.6 Property, plant and equipment (continued)

proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other revenue in surplus or deficit.

Leased assets

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Upon initial recognition of assets leased under finance leases, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

2.7 Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of business.

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

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

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

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

Accounting Policies

2.7 Investment property (continued)

Property interests held by the municipality (lessee) under an operating lease are accounted for as investment property.

The initial cost of a property interest held under a lease classified as an investment property, shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount is recognised as a liability.

The fair value of investment properties is determined at the reporting date by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The valuations are based on the value of similar properties in the market.

Fair value

Investment property is subsequently measured at fair value with any change therein recognised in surplus or deficit .

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

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

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

2.8 Biological assets

Biological assets are measured at their fair value less point-of-sale costs. A gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs is included in surplus or deficit for the period in which it arises.

The fair value of game is determined based on market prices of game of similar age, breed, and genetic merit.

2.9 Financial instruments

Classification

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

- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables

Non-derivative financial assets

Accounting Policies

2.9 Financial instruments (continued)

The municipality initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

The municipality derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the municipality is recognised as a separate asset or liability.

The municipality has the following classes and categories of financial assets as reflected on the face of the statement of financial position or in the notes thereto:

Class of financial asset	IAS 39 category
Trade and other receivables from exchange transactions (consumer debtors)	Loans and receivables
Cash on hand and cash at bank	Cash and cash equivalents
Unlisted shares (in 'Other financial assets')	Fair value through profit or loss

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or 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 profit or loss.

Financial assets are designated as at fair value through profit or loss if the municipality manages such investments and makes purchase and sale decisions based on their fair value in accordance with the municipality’s documented risk management or investment strategy.

Financial assets at fair value through profit or loss are measured initially and subsequently at fair value and gains and losses arising from changes in fair value are recognised in surplus or deficit for the period. Transaction costs are recognised in surplus or deficit.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment losses.

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to

2.9 Financial instruments (continued)

an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the municipality's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

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. Held-to-maturity investments are initially recognised at fair value plus direct transaction costs. At subsequent reporting dates, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the municipality from classifying investment securities as held-to-maturity for the current and the following two financial years.

Non-derivative financial liabilities

The municipality initially recognises financial liabilities, including liabilities designated at fair value through surplus or deficit, on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

The municipality derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. 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.

The municipality has the following classes of financial liabilities as reflected on the face of the statement of financial position or in the notes thereto:

- Loans and borrowings
- Trade and other payables from exchange transactions
- Bank overdraft
- Short-term loans
- Current portion of loans and borrowings
- Consumer deposits

The above financial liabilities form part of the "other financial liabilities carried at amortised cost" category per IAS 39 and are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

2.9 Financial instruments (continued)

Financial guarantee contracts

Financial guarantees are contracts that require the municipality to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee becomes probable. Financial guarantees are included in other liabilities.

The municipality does not account for financial guarantee contracts under IFRS 4 *Insurance Contracts*.

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are

2.9 Financial instruments (continued)

reversed in subsequent periods when an increase in the investment’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 investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

2.10 Inventories

Cost

The cost of inventories comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at the date of acquisition. Cost is generally determined using the first-in-first-out principle except where stated otherwise.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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.

Water inventory

Water inventory represents water housed in dams within the municipal area and is measured at the lower of cost, which is deemed to be fair value, and net realisable value. In the absence of a market that trades in water outside of local government, the fair value utilised to quantify water inventory is based on the unit reference value. The unit reference value is a determined by a formula that is utilised in the engineering department to calculate the development cost of new water resources.

The water levels in the dams are based on cubic meter capacity taking into account the capacity of the dam, based on land surveying reports and the curve of the dam.

Readings of water levels are taken at year-end, which is quantified at the above fair value.

Water and purified effluent are measured at the lowest of purified cost and net realisable value insofar as it is stored and controlled in reservoirs at year-end.

Accounting Policies

2.11 Impairment

Financial assets

A financial asset, not carried at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

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.

The municipality considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in net assets, and presented in the fair value reserve, to surplus or deficit. The cumulative loss that is removed from the fair value reserve and recognised in surplus or deficit is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in surplus or deficit. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in surplus or deficit, then the impairment loss is reversed, with the amount of the reversal recognised in surplus or deficit. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security

2.11 Impairment (continued)

is recognised in net assets.

Impairment losses are not subsequently reversed for equity instruments which are carried at cost because fair value was not determinable.

Non-financial assets

Cash generating assets

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

The carrying amounts of the municipality's cash generating non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually.

If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs. For the purpose of impairment testing, assets are therefore grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in surplus or deficit.

Impairment losses recognised in respect of cash-generating units are allocated on a pro rata basis to reduce the carrying amounts of the other assets in the unit. The allocation of impairment losses to assets in a cash generating unit may not reduce the carrying amount of such assets below the highest of its fair value less costs to sell, value in use and zero.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of its recoverable amount the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

Accounting Policies

2.11 Impairment (continued)

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

Non-cash-generating assets

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

The carrying amounts of the municipality’s non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset’s fair value less costs to sell and its value in use.

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

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable service amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.12 Revenue

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Revenue from exchange transactions

Revenue is generally recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits or service potential can be measured reliably, except when specifically stated otherwise. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Accounting Policies

Revenue from exchange transactions (continued)

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

Services

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

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

Service charges

Service charges relating to distribution of 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, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on [include detail].

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property 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 services are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is recognised on a monthly basis.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

Revenue from exchange transactions (continued)

Interest, royalties and dividends

Interest earned and rentals received

Interest income is recognised in surplus or deficit as it accrues, using the effective interest method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

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

Dividends

Dividends are recognised on the date that the municipality's right to receive the dividend has been established.

Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreements.

Other

Tariff charges

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

Agency commission

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

Housing rental and instalments

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from non-exchange transactions

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements

Accounting Policies

Revenue from non-exchange transactions (continued)
or restrictions.

Rates and taxes

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

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

Fines consist of spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

An estimate is made for revenue from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue is recognised when the public prosecutor pays the cash collected over to the municipality.

Receipt of community services in exchange for a fine is not recognised as revenue.

Donations and contributions

Revenue from donations is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

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.

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if

Revenue from non-exchange transactions (continued)

the recognition criteria had been met, as assets in the reporting period in which they are received or receivable.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

Interest earned on investments is treated in accordance with grant conditions. If interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the statement of financial performance.

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

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

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

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

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied or, if the tax is levied on a periodic basis, the period for which the tax is levied.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in its capacity of an agent, the fine is not recognised as revenue.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Accounting Policies

Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

2.13 Provisions

A provision is recognised if, as a result of a past event, the municipality has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

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

Site restoration

The Municipality has an obligation to rehabilitate its landfill site in terms of its license stipulations. The amount of the provision is recognised at the present value of the expenditure expected to be required to settle the obligation.

2.14 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.

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

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be

Accounting Policies

2.14 Employee benefits (continued)

estimated reliably.

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

Other long-term employee benefits

Termination benefits are recognised as an expense when the municipality is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the municipality has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Medical aid - continued members

The Municipality provides certain post retirement benefits by funding medical aid contributions of certain retired members of the Municipality until the date of death.

Future benefits valued are projected using specific actuarial assumptions. No plan assets exist and any gains of losses are recognised annually.

2.15 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 - municipality as lessee

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

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

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

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

Subsequent to initial recognition, the asset is account for in accordance with the accounting policy applicable to that asset.

Accounting Policies

2.15 Leases (continued)

Assets leased under operating leases, except for property interests held by the municipality as investment property, are not recognised in the statement of financial position.

Operating leases - municipality as lessee

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Finance leases - municipality as lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

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

Operating leases - municipality as lessor

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

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

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

Finance sale and leaseback

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller – lessee. The excess amount is deferred and amortised over the lease term.

Operating sale and leaseback

Where the sale and leaseback results in an operating lease and the transactions is accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.
- If the sale price is below fair value, any gain or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.
- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

Accounting Policies

2.16 Borrowing costs

Borrowing costs are capitalised in respect of qualifying assets that necessarily take a substantial period to get ready for their intended use.

If the carrying amount of the qualifying asset exceeds its recoverable amount or recoverable service amount, an impairment loss is recognised for the excess amount.

Borrowing costs that are not capitalised are recognised as an expense in surplus or deficit.

2.17 Donations and grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised as expenses in surplus or deficit in the period that the events giving rise to the transfer occur.

2.18 Tax

Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

Taxation

The municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

2.19 Unauthorised expenditure

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

2.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the municipality’s supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement

Accounting Policies

2.20 Irregular expenditure (continued)

of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is recovered or written off as irrecoverable.

2.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as a receivable in the statement of financial position until such expenditure is recovered or written off as irrecoverable.

2.22 Comparative figures

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed in note .

Where accounting errors have been identified and/or, there has been a change in accounting policy in the current year, corrections and adjustments are made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. The nature and amounts of restatements as well as the reasons are disclosed in note 36

2.23 Housing development fund

The Housing Development Fund was established in terms of the Housing Act (Act No. 107 of 1997). Sections 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, requires that the municipality should maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Act also requires, in terms of Section 14(4)(d)(ii)(aa) – read with, inter alia, Section 16(2) – that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, be paid into a separate operating account, and be utilised by the municipality for housing development in accordance with the National Housing Policy.

2.24 Accounting estimates and judgements

Key sources of estimation uncertainty

Impairment of trade and other receivables

The impairment of the municipality's trade and other receivables is based on incurred losses in accordance with the requirements of IAS 39. The historical loss experience of the municipality, based on observable data through the passage of time, is used to estimate the impairment of trade and other receivables. Any changes in the payment status of customers in a specific group or national or local economic conditions that correlate with defaults on the assets in the group will have an impact on the impairment of trade and other receivables.

Provisions

The provisions raised by the municipality are detailed in note 25. These provisions represent management's

2.24 Accounting estimates and judgements (continued)

best estimate of the municipality's exposure. The probability that an outflow of economic resources will be required to settle the obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Actual results may, however, differ from these estimates.

Allowance for slow moving, damaged and obsolete stock

Management has made estimates of the selling price and direct cost to sell of certain inventory items to calculate the allowance to write stock down to the lower of cost or net realisable value. The write down is included in note 32.

Fair value estimation

The fair value information presented by the municipality in note requires the application of valuation techniques and assumptions based on market conditions existing at the end of the reporting period. The actual fair values may differ from those estimated.

Critical judgements in applying accounting policies

Classification as investment property

The municipality has reviewed its property portfolio and determined which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio have either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

Depreciation and the carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated remaining useful lives of items of property, plant and equipment will have an impact on the carrying value of these items.

Identification of impairment indicators

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The municipality applies the impairment assessment to its assets or separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

2.25 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 property, plant and equipment are depreciated, through a transfer from the revaluation reserve to the accumulated surplus or deficit. On disposal, the net

Accounting Policies

2.25 Revaluation reserve (continued)

revaluation surplus is transferred to the accumulated surplus or deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

2.26 Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in surplus or deficit using the effective interest method.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

3. New standards and interpretations

3.1 Standards and Interpretations early adopted

The provisions of GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers) relating to transfers and subsidies received were adopted in accordance with the allowance made by GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 7 and 11.

GRAP 23 was approved by the Accounting Standards Board but not yet effective as at 30 June 2010. Adoption of the standard has had no material impact on the results of the municipality.

3.2 Standards issued and not yet effective

The following standards expected to be applicable to the municipality have been issued, but are not yet effective:

GRAP 18 - Segment Reporting
GRAP 20 - Related party Disclosures
GRAP 25 - Employee benefits
GRAP 104 - Financial Instruments
GRAP 105 - Transfer of Function between Entities under Common control
GRAP 106 - Transfer of Function between Entities not under Common control
GRAP 107 - Mergers

IFRS 7: Financial Instruments: Disclosures - Amendments to disclosures

IFRS 7 is amended to add an explicit statement that the qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

arising from financial instruments.

The existing disclosure requirements of IFRS 7 are amended as follows:

- IFRS 7 is amended to state that clarification that disclosure of the amount that best represents an entity's maximum exposure to credit risk is required only if the carrying amount of a financial asset does not reflect such exposure already.
- Additional requirement to disclose the financial effect of collateral held as security and other credit enhancements in respect of a financial instrument. An example of such disclosure is quantification of the extent to which credit risk is mitigated by the collateral and other credit enhancements obtained. This disclosure is in addition to the existing requirement to describe the existence and nature of such collateral.
- IFRS 7 is amended to state that clarification that disclosure in respect of collateral taken possession off by the entity is required only in respect of such collateral held at the end of the reporting period.

The following requirements have been removed from IFRS 7:

- Disclosure of the carrying amount of financial assets that would have been past due or impaired if their terms had not been renegotiated.
- Disclosure of a the description and fair value of collateral held as security and other credit enhancements in respect of financial assets that are past due but not impaired and in respect of financial assets that are individually determined to be impaired.

Additionally, the clause stating that quantitative disclosures are not required when a risk is not material has been removed from IFRS 7. The general materiality considerations continue to apply to all disclosures required by IFRS 7 in the same way as they apply to other IFRSs.

The amended is effective for annual periods beginning on or after 1 January 2011.

The amendments will be adopted by the municipality for the first time for its financial reporting period ending 30 June 2012.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	337,320	4,782,704
Short-term deposits	7,487,611	4,321,710
	7,824,931	**9,104,414**

Credit quality of cash at bank and short term deposits, excluding cash on hand

Notes to the Annual Financial Statements

4. Cash and cash equivalents (continued)

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2011	June 30, 2010	June 30, 2009
ABSA BANK - Cheque Account - 810142227	306,880	4,779,764	5,798,274	306,880	4,779,764	1,468,204
ABSA BANK - Money Market Account - 9108352550	4,242,395	4,321,710	2,098,987	4,242,395	4,321,710	1,468,204
STANLIB - Cash Plus Fund - 551621715	3,245,216	-	-	3,245,216	-	-
Total	**7,794,491**	**9,101,474**	**7,897,261**	**7,794,491**	**9,101,474**	**2,936,408**

5. Consumer debtors

Gross balances		
Rates	4,534,304	4,275,195
Electricity	2,597,530	1,285,175
Water	6,377,221	6,682,072
Sewerage	8,641,160	9,600,873
Refuse	6,306,135	7,137,325
Housing rental	1,207,121	1,741,034
	29,663,471	**30,721,674**
Less: Provision for debt impairment		
Rates	(3,495,064)	(2,497,916)
Electricity	(167,000)	(156,260)
Water	(4,960,432)	(5,217,526)
Sewerage	(7,430,927)	(8,288,104)
Refuse	(5,351,908)	(5,853,707)
Housing rental	(992,584)	(638,587)
	(22,397,915)	**(22,652,100)**
Net balance		
Rates	1,039,240	1,777,279
Electricity	2,430,530	1,128,915
Water	1,416,789	1,464,546
Sewerage	1,210,233	1,312,769

Notes to the Annual Financial Statements

5. Consumer debtors (continued)

Refuse	954,227	1,283,618
Housing rental	214,537	1,102,447
	7,265,556	**8,069,574**

Rates		
Current (0 -30 days)	228,470	242,192
31 - 60 days	79,568	90,447
61 - 90 days	72,873	67,021
91 - 120 days	69,108	58,703
121 - 365 days	4,084,285	3,816,832
Impairment	(3,495,064)	(2,497,916)
	1,039,240	**1,777,279**

Electricity		
Current (0 -30 days)	2,054,832	889,572
31 - 60 days	115,737	64,181
61 - 90 days	15,269	26,532
91 - 120 days	15,333	14,093
121+ days	396,359	290,797
Impairment	(167,000)	(156,260)
	2,430,530	**1,128,915**

Water		
Current (0 -30 days)	491,308	362,148
31 - 60 days	139,472	167,730
61 - 90 days	144,379	172,310
91 - 120 days	140,096	153,455
121 - 365 days	5,461,966	5,826,429
Impairment	(4,960,432)	(5,217,526)
	1,416,789	**1,464,546**

Sewerage		
Current (0 -30 days)	276,732	284,480
31 - 60 days	191,366	209,133
61 - 90 days	183,644	196,292
91 - 120 days	180,631	193,835
121 - 365 days	7,808,787	8,717,133
Impairment	(7,430,927)	(8,288,104)
	1,210,233	**1,312,769**

Refuse		
Current (0 -30 days)	197,059	218,634

Notes to the Annual Financial Statements

5. Consumer debtors (continued)

31 - 60 days	138,251	160,015
61 - 90 days	130,745	151,694
91 - 120 days	128,100	149,643
121 - 365 days	5,711,980	6,457,339
Impairment	(5,351,908)	(5,853,707)
	954,227	**1,283,618**

Housing rental		
Current (0 -30 days)	14,560	18,029
31 - 60 days	8,111	7,877
61 - 90 days	30,471	106,788
91 - 120 days	7,722	1,055
121 - 365 days	1,146,257	1,607,285
Impairment	(992,584)	(638,587)
	214,537	**1,102,447**

Summary of debtors by customer classification

Consumers/Households		
Current (0 -30 days)	2,237,679	1,356,439
31 - 60 days	567,941	575,067
61 - 90 days	485,216	614,637
91 - 120 days	460,355	521,506
121 - 365 days	22,927,123	25,103,068
	26,678,314	**28,170,717**

Industrial/ commercial		
Current (0 -30 days)	828,827	508,075
31 - 60 days	53,346	76,013
61 - 90 days	44,969	62,560
91 - 120 days	33,685	26,225
121 - 365 days	1,425,288	1,332,913
	2,386,115	**2,005,786**

National and provincial government		
Current (0 -30 days)	184,060	150,398
31 - 60 days	41,073	48,302
61 - 90 days	40,582	43,438
91 - 120 days	41,489	23,132
121 - 365 days	292,519	279,767
	599,723	**545,037**

Notes to the Annual Financial Statements

5. Consumer debtors (continued)

Net debtor balance	7,265,556	8,069,574
Impairment	(22,397,915)	(22,652,100)
Gross debtor balance	29,663,471	30,721,674

Reconciliation of debt impairment provision

Balance at beginning of the year	(22,652,100)	(29,446,815)
Contributions to provision	(6,307,022)	(34,118)
Debt impairment written off against provision	6,561,207	6,828,833
	(22,397,915)	**(22,652,100)**

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

6. Inventories

Fuel (Diesel)	34,114	34,875
Electricity	24,396	25,954
Water equipment	16,595	44,684
Mechanical	13,687	-
	88,792	**105,513**

7. Other receivables from exchange transactions

Prepayments	100,536	100,536
Other receivables	66,981	1,307,742
	167,517	**1,408,278**

None of the financial assets that are fully performing have been renegotiated in the last year.

8. VAT receivable

VAT receivable	4,108,485	2,758,327

VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

9. Biological assets

Biological assets where fair value can be measured reliably

Notes to the Annual Financial Statements

9. Biological assets (continued)

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Biological assets - game	1,067,100	-	1,067,100	1,534,450	-	1,534,450

Notes to the Annual Financial Statements

Figures in Rand

9. Biological assets (continued)

Reconciliation of biological assets - 2011

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets - game	1,534,450	(467,350)	1,067,100

Reconciliation of biological assets - 2010

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets - game	753,350	781,100	1,534,450

Notes to the Annual Financial Statements

9. Biological assets (continued)

Non - Financial information

Quantities of game		
Black Springbok	43	61
Black Wildebeest	116	149
Blesbok	56	92
Blue Wildebeest	28	22
Impala	24	28
Kudu	28	26
Lechwe	17	17
Oryx	42	72
Ostrich	21	15
Red Hartebeest	6	7
Springbok	268	278
Zebra	10	18
	659	**785**

Pledged as security

None of the biological assets were pledged as security as at 30 June 2011.

Methods and assumptions used in determining fair value

Bid prices obtained from biological asset auctions were used as the fair value of biological assets.

10. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	13,066,000	-	13,066,000	12,027,000	-	12,027,000

Reconciliation of investment property - 2011

	Opening balance	Fair value adjustments	Total
Investment property	12,027,000	1,039,000	13,066,000

Reconciliation of investment property - 2010

	Opening balance	Fair value adjustments	Total
Investment property	10,919,000	1,108,000	12,027,000

Notes to the Annual Financial Statements

11. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Computer software	16,681	(13,627)	3,054	16,681	(10,466)	6,215
Infrastructure	357,239,695	(38,394,164)	318,845,531	357,239,695	(19,197,082)	338,042,613
Community	47,454,754	(6,131,548)	41,323,206	47,454,754	(3,065,774)	44,388,980
Other property, plant and equipment	92,014,843	(16,403,225)	75,611,618	91,936,971	(8,407,307)	83,529,664
Capital work in progress	13,905,136	-	13,905,136	-	-	-
Recreation	7,144,814	(1,079,422)	6,065,392	7,144,814	(539,711)	6,605,103
Total	**517,775,923**	**(62,021,986)**	**455,753,937**	**503,792,915**	**(31,220,340)**	**472,572,575**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Computer software	6,215	-	-	(3,161)	3,054
Infrastructure	338,042,613	-	-	(19,197,082)	318,845,531
Community	44,388,980	-	-	(3,065,774)	41,323,206
Other property, plant and equipment	83,529,664	104,690	(26,818)	(7,995,918)	75,611,618
Capital work in progress	-	13,905,136	-	-	13,905,136
Recreation	6,605,103	-	-	(539,711)	6,065,392
	472,572,575	**14,009,826**	**(26,818)**	**(30,801,646)**	**455,753,937**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Depreciation	Total
Computer software	5,265	5,182	-	(4,232)	6,215
Infrastructure	357,239,695	-	-	(19,197,082)	338,042,613
Community	47,454,754	-	-	(3,065,774)	44,388,980
Other property, plant and equipment	90,447,909	1,425,320	(438,635)	(7,904,930)	83,529,664
Recreation	7,144,814	-	-	(539,711)	6,605,103
	502,292,437	**1,430,502**	**(438,635)**	**(30,711,729)**	**472,572,575**

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.

12. Other financial assets

Notes to the Annual Financial Statements

12. Other financial assets (continued)

At fair value through profit or loss - designated			
Unlisted shares		212,455	212,455
Number of shares held at Senwes Limited	49 383		
Number of shares held at Senwesbel Limited	75 732		
Ordinance 8 of 1962 and the Municipal Finance Management Act (56 of 2003) require that funds , trust funds and other be invested in the prescribed instruments.			
In accordance with IAS39.46, the shares are carried at cost as they are unlisted and the share price cannot be determined reliable.			

Non-current assets		
At fair value through profit or loss - designated	212,455	212,455

Fair value information

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

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

Fair values of loans and receivables

13. Consumer deposits

Electricity and water	451,907	430,848

Guarantees held in lieu of electricity and water deposits	-	-

No interest accrues on the balance of the Consumer Deposits held by the Municipality.

14. Current portion of non-current provision

Reconciliation of movement during the period		
Balance at beginning of period	1,851,929	2,043,936
Additions during the year	1,714,551	42,466
	3,800,953	2,086,402
Balance at end of period		
Transferred to current liabilities	(416,773)	(234,473)
Non-current provision	**3,149,707**	**1,851,929**

The municipality is obliged to make fixed monthly contributions to the medical aid schemes of retired employees. These contributions are payable till the date of death. The amount payable within the next financial year is recognised as a current liability.

Notes to the Annual Financial Statements

15. Finance lease obligation

Minimum lease payments due		
- within one year	800,506	794,416
- in second to fifth year inclusive	2,673,703	2,655,671
	3,474,209	3,450,087
less: future finance charges	(1,239,702)	(1,234,465)
Present value of minimum lease payments	**2,234,507**	**2,215,622**
Present value of minimum lease payments due		
- within one year	425,729	423,525
- in second to fifth year inclusive	1,808,778	1,792,097
	2,234,507	**2,215,622**
Non-current liabilities	1,383,048	1,792,096
Current liabilities	425,729	423,525
	1,808,777	**2,215,621**

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

16. Operating lease asset (accrual)

The balance consists of income received in advance (R 2,541) and an accrued rent expense (R 1,068).

17. Other financial liabilities

Measured at amortised cost		
Annuity loans	13,554,172	14,002,537
All annuity loans are from The Development Bank of South Africa and endowments are made on a six monthly basis. The last loan will be redeemed at 31 December 2015. The loans carry interest between 11% and 14% per annum.		
Non-current liabilities		
At amortised cost	13,048,932	13,554,171
Current liabilities		
At amortised cost	505,240	448,366
	13,554,172	**14,002,537**

18. Trade and other payables from exchange transactions

Notes to the Annual Financial Statements

18. Trade and other payables from exchange transactions (continued)

Trade payables	4,025,639	4,045,322
Payments received in advanced - contract in process	1,552,662	874,246
Accrued leave pay	3,995,080	3,163,833
Accrued bonus	631,127	552,106
Deposits received	300	-
Cash suspense accounts	449,397	30,868
Other payables	6,128,600	10,347,107
	16,782,805	**19,013,482**

Other payables comprise cheques not yet cleared at bank (R 5 176 863), debtors with credit balances (R 300 804) and accruals (R 384 205)

Fair value of trade and other payables

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

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	4,024,109
Skills Development Grant	127,615	101,829
Lotto Grant	2,192,823	24,836
	2,320,438	**4,150,774**

Movement during the year

Balance at the beginning of the year	4,150,774	7,042,021
Received during the year	14,442,773	26,358,008
Income recognition during the year	(16,273,109)	(29,249,255)
	2,320,438	**4,150,774**

See note 22 for the reconciliation of other grants from National/Provincial Government.

The amounts will be recognised as revenue when the qualifying expenditure is incurred. No grants were withheld due to unfilled conditions.

Notes to the Annual Financial Statements

20. Property rates

Rates received

State	1,003,068	981,377
Residential and commercial	4,064,733	3,600,858
	5,067,801	**4,582,235**

Valuations

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

Rebates of R 35,000 (2010: R 35,000) are granted to residential property owners.

The new general valuation will be implemented on 1 July 2013.

21. Service charges

Sale of electricity	13,087,524	9,752,705
Sale of water	4,981,017	4,703,465
Sewerage and sanitation charges	4,443,248	4,408,094
Refuse removal	2,385,103	2,856,068
	24,896,892	**21,720,332**

Notes to the Annual Financial Statements

22. Government grants and subsidies

Equitable share	48,803,479	35,908,495
Municipal Infrastucture Grant	14,323,109	27,106,683
Municipal Systems Improvement Grant	750,000	739,112
Financial Management Grant	1,200,000	750,000
District Municipality Grant	-	50,000
Skills Development Grant	-	131,194
Vuna award	-	466,705
Grant - purchase and repair of moveable assets	-	5,561
	65,076,588	**65,157,750**

Equitable Share

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

All registered indigents receive a monthly subsidy which is credited to their accounts.

MIG Grant

Balance unspent at beginning of year	4,024,109	4,024,109
Current-year receipts	10,299,000	-
Conditions met - transferred to revenue	(14,323,109)	-
	-	**4,024,109**

The grant is utilised to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure providing basic services for the benefit of poor households. The grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

Skills Development Grant

Balance unspent at beginning of year	101,829	101,829
Current-year receipts	25,786	-
	127,615	**101,829**

Conditions still to be met - remain liabilities (see note 19)

A workplace skills plan and training report must be submitted to the LGSETA in compliance with the Skills Development Act before the unspent amount will be transferred to revenue.

Lotto Grant

Balance unspent at beginning of year	24,836	24,836
Current-year receipts	2,167,987	-
	2,192,823	**24,836**

Notes to the Annual Financial Statements

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19)

The grant was allocated with the condition that a sports track be erected in the Tikwana Stadium. A contractor has been appointed and building will commence in the 2011/12 financial year.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	4,112
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(750,000)	(739,112)
	-	-

Finance Management Grant

Current-year receipts	1,200,000	750,000
Conditions met - transferred to revenue	(1,200,000)	(750,000)
	-	-

23. Other income

Building plan fees	40,363	11,273
Commission received	157,373	142,953
Connection fees	103,839	163,483
Grave fees	105,562	112,296
Gravel sales	79,246	125,204
Late payment penalty	72,621	8,871
Opening of graves	11,473	15,610
Special meter readings	11,664	3,926
Sundry income	198,236	1,018,799
	780,377	**1,602,415**

24. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	15,359	157,956
Finance income		
ABSA Bank - current account	(1,311)	8,379
ABSA Bank - Money Market Account	738,966	739,461
	737,655	**747,840**
	753,014	**905,796**

Notes to the Annual Financial Statements

Figures in Rand

25. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Increase in provision	Unwinding of discount	Total
Environmental rehabilitation	94,360	-	11,960	106,320
Medical contribution provision	1,851,929	1,532,251	-	3,384,180
	1,946,289	**1,532,251**	**11,960**	**3,490,500**

Reconciliation of provisions - 2010

	Opening Balance	Increase in provision	Unwinding of discount	Total
Environmental rehabilitation	83,745	-	10,615	94,360
Medical contribution provision	1,809,464	42,465	-	1,851,929
	1,893,209	**42,465**	**10,615**	**1,946,289**

The municipality is obliged to make fixed monthly contributions to the medical aid schemes of retired employees. These contributions are payable till the date of death.

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.

Notes to the Annual Financial Statements

26. Employee related costs

Basic	19,714,852	15,962,326
Medical aid - company contributions	3,054,841	3,053,109
UIF	191,507	162,876
WCA	-	169,922
SDL	237,761	183,141
Leave pay provision charge	1,214,881	1,562,814
Other short term costs	10,405	9,221
Post-employment benefits - Pension - Defined contribution plan	3,358,566	2,791,289
Travel, motor car, accommodation, subsistence and other allowances	1,586,758	1,562,652
Overtime payments	1,392,410	1,029,964
Housing benefits and allowances	19,738	53,412
	30,781,719	**26,540,726**

Remuneration of Section 57 Managers

Remuneration of the Municipal Manager

Annual Remuneration	498,496	419,116
Car Allowance	145,299	156,411
Housing Allowance	2,500	-
Performance and other bonuses	20,000	34,800
Contributions to UIF, Medical and Pension Funds	105,870	76,108
	772,165	**686,435**

Remuneration of the Chief Financial Officer

Annual Remuneration	471,300	429,000
Car Allowance	202,805	192,341
Contributions to UIF, Medical and Pension Funds	96,087	79,018
	770,192	**700,359**

Remuneration of the Chief Operating Officer

Annual Remuneration	450,000	415,200
Car Allowance	259,137	251,900
Contributions to UIF, Medical and Pension Funds	91,812	76,524
	800,949	**743,624**

Remuneration of the Executive Manager Corporate Services

Annual Remuneration	434,850	393,600
Car Allowance	123,245	170,306
Performance and other bonuses	36,300	-
Contributions to UIF, Medical and Pension Funds	91,859	77,065
	686,254	**640,971**

Notes to the Annual Financial Statements

26. Employee related costs (continued)

Remuneration of the Executive Manager Community Services		
Annual Remuneration	415,000	390,000
Car Allowance	122,958	125,022
Performance and other bonuses	34,500	32,500
Contributions to UIF, Medical and Pension Funds	103,531	76,371
	675,989	**623,893**

27. Remuneration of councillors

Mayor	541,287	534,258
Speaker	469,580	444,031
Councillors	1,956,152	1,471,803
Councillors' pension contributions	287,200	273,849
Councillors' contributions to medical aid	483,820	590,909
	3,738,039	**3,314,850**

The Mayor and Speaker full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

28. Finance costs

Non-current borrowings	1,658,235	1,745,200
Trade and other payables	30,063	117,049
Finance leases	371,469	-
Other interest paid	-	156
	2,059,767	**1,862,405**

29. Debt impairment

Debt impairment	6,307,100	34,118
Write-off of long outstanding other receivables	1,052,164	-
	7,359,264	**34,118**

30. Bulk purchases

Electricity	16,966,270	13,678,090
Water	680,746	1,046,949
	17,647,016	**14,725,039**

Additional text

Notes to the Annual Financial Statements

31. General expenses

Advertising	320,035	63,574
Auditors remuneration	1,784,600	1,668,413
Bank charges	258,865	220,876
Blue Drop (water quality) assessment	77,422	-
Cleaning	1,098,333	35,383
Conference, subscriptions and membership fees	723,545	493,382
Consulting and professional fees	304,939	1,864,291
Consumables	2,930	-
Entertainment	268,143	79,190
Fuel and oil	1,176,187	658,898
Green Drop (sewerage) assessment	74,782	-
Insurance	263,443	188,255
Internal audit expense	77,802	-
Operating grant expenditure	4,152,969	2,175,690
Other expenses	4,740,579	12,952,511
Printing and stationery	359,825	921,418
Radio and television licenses	12,723	15,094
Telephone and fax	684,734	835,422
Training	380,669	157,146
Travel - local	232,923	266,995
Uniform and protective clothing	143,499	145,391
Valuation costs	431,026	463,008
Vehicle licenses	68,856	60,515
	17,638,829	**23,265,452**

32. Operating (deficit) surplus

Operating (deficit) surplus for the year is stated after accounting for the following:

Depreciation on property, plant and equipment	30,801,647	30,711,730
Employee costs	34,504,348	30,195,435

33. Auditors' remuneration

Fees	1,784,600	1,668,413

34. Cash generated from operations

(Deficit) surplus	(15,072,770)	3,246,171
Adjustments for:		
Depreciation and amortisation	30,801,647	30,711,730
(Loss) gain on biological assets	467,350	(781,100)
Finance costs - Finance leases	371,469	-
Debt impairment	7,359,264	34,118

Notes to the Annual Financial Statements

34. Cash generated from operations (continued)

Movements in operating lease assets and accruals	3,609	-
Movements in provisions	1,544,211	-
Fair value adjustment on investment property (non-cash item)	(1,039,008)	(1,108,000)
Other non-cash items	-	(27,112,958)
Changes in working capital:		
Inventories	16,721	2,144,096
Other receivables from exchange transactions	1,240,761	(214,574)
Consumer debtors	(6,555,246)	(829,698)
Trade and other payables from exchange transactions	(2,230,670)	10,910,809
VAT	(1,350,158)	(6,412,408)
Unspent conditional grants and receipts	(1,830,336)	(4,177,120)
Consumer deposits	21,059	16,806
Other current liabilities	-	(272,736)
Short-term provision	-	234,473
	13,747,903	**6,389,609**

35. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel;
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence.
- entities that control or exert significant influence over the municipality

The economic entity's key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Details of loans, together with the conditions thereof, granted prior to this date are disclosed below.

36. Prior period errors

Notes to the Annual Financial Statements

36. Prior period errors (continued)

Assets under finance lease were incorrectly not derecognised (R 465 988) when they were used as settlement on new finance lease assets at the end of the 2009/10 financial year.

A review of the prior period finance lease amortization schedules indicated an overstatement of the liability in the annual financial statements. These schedules were updated in the current year and the total correction amounted to R 533 158.

Trade payables were not adjusted/amortised to take into account the time value of money when paid after thirty days of receiving the invoice.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Property, plant and equipment	-	(999,146)
Finance lease liability	-	999,146
Trade payables	-	3,742
Accrued interest	-	(3,742)
Statement of financial performance		
Interest paid	-	117,049
General expenses	-	(117,049)
Cash flow statement		
Cash flow from operating activities		
Supplier	-	117,049
Interest paid	-	(117,049)
	-	-
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	-	999,146
Cash flow from financing activities		
Finance lease payments	-	(999,146)

37. Risk management

Financial risk management

Objectives, policies and processes for managing risks

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The Council has established a combined Performance, Risk and Audit Committee,

Notes to the Annual Financial Statements

37. Risk management (continued)

which is responsible for developing and monitoring the municipality’s risk management policies. The committee reports regularly to the Council on its activities and it oversees the monitoring of compliance with the municipality’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The committee is assisted in its oversight role by the economic entity's internal audit function.

The municipality’s corporate treasury function provides services to the entity, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include the following:

- credit risk;
- liquidity risk; and
- market risk (including currency risk, interest rate risk, equity price risk and commodity price risk).

The municipality seeks to minimise the effects of these risks in accordance with the municipality’s policies approved by the Council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and in the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipality does not enter into or trade in financial instruments for speculative purposes. The corporate treasury function reports to the Risk Management Committee on a quarterly basis.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the economic entity. The economic entity has adopted a policy of only dealing with creditworthy counterparties to the extent possible and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

With the exception of trade receivables, the economic entityonly transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the economic entity uses other publicly available financial information and its own trading records to rate its major customers.

The economic entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

The credit exposure to any single counterparty is managed by setting transaction or exposure limits, which are included in the economic entity's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and

Notes to the Annual Financial Statements

37. Risk management (continued)

geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers.

Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by levying penalty charges, issuing demands for payment, restricting service and handing customers over for collection, whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Financial assets which expose the economic entity to credit risk at year end were as follows:

Financial instrument	2011	2010
ABSA Cheque Account	306,880	4,779,763
ABSA Money Market Account	4,242,395	4,321,710
Stanlib Investments	3,221,146	-

These balances represent the maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the economic entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the economic entity’s short, medium and long-term funding and cash flow requirements.

The economic entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the economic entity’s revenue or the value of its holdings of financial instruments. The

Notes to the Annual Financial Statements

37. Risk management (continued)

objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year, to the economic entity's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

Foreign currency risk

The economic entity does not enter into significant foreign currency transactions had has limited exposure to foreign currency risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The economic entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates.

As the municipality has no significant interest-bearing assets, the municipality's revenue and operating cash flows are substantially independent of changes in market interest rates.

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

- ABSA Cheque Account
- ABSA Money Market AccountFinance Leases
- Development Bank of South Africa loan
- Finance Leases
- Stanlib Investments

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2011 and 2010, the municipality's borrowings at variable rate were denominated in the Rand.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Entity price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality

Notes to the Annual Financial Statements

37. Risk management (continued)

and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

38. Going concern

We draw attention to the fact that at June 30, 2011, the municipality had operating deficits of R 15,057,162 and the municipality's current assets exceeded its current liabilities by R 1 451 220.

The total assets however still exceed the total liabilities by R 450 725 792.

The unspent conditional grants which are included under current liabilities at R 2 320 438 will rectify the liquidity as soon as grant conditions are met.

Due to the first time adoption of GRAP 17 the municipality had to account for depreciation on all its assets. The 2010/11 depreciation amounted to R 30 786039 and its inclusion (though non-cash) in the statement of financial performance resulted in the operating deficit.

The municipality receives annual grants from National Treasury which ensure that the muncipality continues with its operations and continues operating as a going concern. As per the Division of Revenue Bill R 55 333 000 (OPEX) will be received from National Treasury as Equitable Share in the 2011/12 financial year. A further R 25 015 000 will be received as Municipal Infrastructure Grant (CAPEX), R 1 450 000 (OPEX) as Financial Management Grant, R 1 831 000 as INEP Grant, R 357 000 EPWPI Grant and R 840 000 (OPEX) as Municipal System Improvement Grant.

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 economic entity 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 economic entity.

39. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

40. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	6,791,189	-
Unauthorised expenditure - current year	1,469,036	5,802,278

Notes to the Annual Financial Statements

40. Unauthorised expenditure (continued)

Approval by Council or Condoned	(1,469,036)	988,911
	6,791,189	**6,791,189**

41. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	63,840	63,840

42. Irregular expenditure

Opening balance	1,778,151	1,778,151

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	153,505	45,498
Amount paid - current year	(153,505)	(45,498)
	-	-

Audit fees

Current year subscription / fee	1,781,600	1,666,413
Amount paid - current year	(1,781,600)	(1,666,413)
	-	-

PAYE and UIF

Opening balance	214,985	43,929
Current year subscription / fee	3,330,847	2,591,035
Amount paid - current year	(3,330,847)	(2,376,050)
Amount paid - previous years	(214,985)	(43,929)
	-	**214,985**

Pension and Medical Aid Deductions

Current year subscription / fee	7,158,406	4,739,507
Amount paid - current year	(7,158,406)	(4,739,507)
	-	-

Notes to the Annual Financial Statements

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

VAT

VAT receivable	4,108,485	2,758,327

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

Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at June 30, 2011.

During the year no Councillors’ had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. No deviations from the Municipal Supply Chain Management Regulations during the 2010/11 financial period.

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	13,554,172	14,002,537

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

45. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

46. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

47. Revenue

Property rates	5,067,801	4,582,235
Service charges	24,896,892	21,720,332
Rental of facilities & equipment	439,795	806,905
Fines	132,844	100,449
Licences and permits	8,146	2,550
Government grants & subsidies	65,076,588	65,157,750
	95,622,066	**92,370,221**

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

Service charges	24,896,892	21,720,332

Notes to the Annual Financial Statements

47. Revenue (continued)

Rental of facilities & equipment	439,795	806,905
Licences and permits	8,146	2,550
	25,344,833	**22,529,787**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	5,067,801	4,582,235
Fines	132,844	100,449
Government grants & subsidies	65,076,588	65,157,750
	70,277,233	**69,840,434**

48. Changes in accounting policy

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

- The impairment of consumer debtors was previously calculated by grouping the debtors in the different services and not the type of debtor as required by the accounting standards. The accounting policy was therefore changed to be in line with IAS39 requirements. The new policy allocated debtors with similar credit risk characteristics to groups which were then evaluated to calculate an impairment.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended June 30, 2010 is as follows:

Statement of financial position

Consumer debtor impairment		
Previously stated	-	25,000,179
Adjustment	-	(2,348,080)
	-	**22,652,099**

Statement of financial performance

Provision for bad debts		
Previously stated	-	2,382,197
Adjustment	-	(2,348,080)
	-	**34,117**

Cash flow statement

Cash flow from operating activities

Debt impairment		
Previously stated	-	2,382,197

Notes to the Annual Financial Statements

48. Changes in accounting policy (continued)

Adjustment	-	(2,348,080)
	-	**34,117**

49. Capital commitments

49.1 Commitments in respect of capital expenditure

Approved and contracted for		
• Infrastructure	26,416,891	41,745,539

This committed expenditure relates to infrastructure and community assets and will be financed by MIG and Lotto grants respectively.

This expenditure will be financed from		
• Government grants	26,416,891	18,649,000
• Own resources	-	3,390,700
	26,416,891	**22,039,700**

49.2 Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	14,464	-
- in second to fifth year inclusive	40,982	-
	55,446	**-**

Operating leases - as lessor (revenue)

Minimum lease payments due		
- within one year	499,301	100,024
- in second to fifth year inclusive	1,473,860	239,432
- later than five years	2,132,005	99,595
	4,105,166	**439,051**