Dihlabeng Local Municipality
Annual Financial Statements
for the year ended 30 June 2009
Issued 29 January 2010

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The reports and statements set out below comprise the annual financial statements presented to the Auditor General:

Abbreviations

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

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 Standards of Generally Recognised Accounting Practices (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 Municipality's Management 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 30 June 2010 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 municipality is wholly dependent on the Government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Dihlabeng Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the management are primarily responsible for the financial affairs of the municipality, they are supported by the company's external auditors.

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 3.

The annual financial statements set out on pages 3 to 52, which have been prepared on the going concern basis, were approved by the Audit Committee on 31 August 2009 and were signed on its behalf by:

Accounting Officer's Report

Statement of Financial Position

Figures in Rand	Note(s)	2009	2008
Assets			
Current Assets			
Inventories	9	2,943,900	2,281,503
Trade and other receivables from exchange transactions	10	159,568,910	108,977,033
Prepayments		-	189,822
Cash and cash equivalents	12	45,130	23,784
		162,557,940	**111,472,142**
Non-Current Assets			
Property, plant and equipment	4	590,271,038	559,321,016
Intangible assets	5	983,620	-
Other financial assets	6	1,165,508	1,108,582
		592,420,166	**560,429,598**
Total Assets		**754,978,106**	**671,901,740**
Liabilities			
Current Liabilities			
Other financial liabilities	13	4,048,038	-
Trade and other payables from exchange transactions	16	37,233,421	37,237,996
Taxes and transfers payable	17	6,122,039	12,134,490
Provisions	15	3,794,901	2,495,011
Bank overdraft	12	48,382,506	20,720,118
		99,580,905	**72,587,615**
Non-Current Liabilities			
Other financial liabilities	13	39,855,587	47,292,573
Finance lease obligation	14	89,779	118,571
Provisions	15	4,427,500	-
		44,372,866	**47,411,144**
Total Liabilities		**143,953,771**	**119,998,759**
Net Assets		**611,024,335**	**551,902,981**
Net Assets			
Accumulated surplus		611,024,335	551,902,981

Statement of Financial Performance

Figures in Rand	Note(s)	2009	2008
Revenue			
Rendering of services		1,047,838	2,585,467
Property rates	19	53,068,426	49,303,407
Service charges	20	161,236,287	128,059,557
Interest received		17,987,900	11,833,484
Fines	18	501,898	254,289
Licences and permits		(5,028)	14,125
Government grants	21	88,750,610	89,345,424
Rental income		3,032,088	2,774,882
Other income		(373,212)	2,968,907
Interest received - investment	26	5,832	20,260
Total Revenue		**325,252,639**	**287,159,802**
Expenditure			
Personnel	23	(101,472,283)	(102,927,394)
Remuneration of councillors	24	(7,472,124)	(4,946,736)
Administration		(10,400)	(5,214)
Depreciation and amortisation		(31,438)	-
Finance costs	27	(8,687,790)	(8,901,739)
Debt impairment	25	(12,826,290)	(15,940,392)
Repairs and maintenance		(16,437,964)	(4,917,639)
Bulk purchases	32	(43,948,161)	(32,120,012)
Contracted services	30	(864,290)	(1,835,496)
Grants and subsidies paid	31	(278,155)	(1,553,955)
General Expenses	22	(75,393,093)	(85,400,810)
Total Expenditure		**(267,421,988)**	**(258,549,387)**
Fair value adjustments		51,126	-
Surplus for the year		**57,881,777**	**28,610,415**
Attributable to:			
Net Asset holders of the controlling entity		57,881,777	28,610,415

Statement of Changes in Net Assets

Figures in Rand	Share capital / contributions from owners	Accumulated surplus	Total net assets
Opening balance as previously reported	-	(1,001,580)	(1,001,580)
Adjustments			
Prior year adjustments	-	(2,549,048)	(2,549,048)
Balance at 01 July 2007 as restated	**-**	**(3,550,628)**	**(3,550,628)**
Changes in net assets			
Changes in accounting policy (Implementation of GRAP)	-	528,135,241	528,135,241
Prior period adjustments	-	(12,405,145)	(12,405,145)
Surplus funds used to purchase PPE	-	11,113,098	11,113,098
Net income (expenses) recognised directly in net assets	-	526,843,194	526,843,194
Surplus for the year	-	28,610,415	28,610,415
Total recognised income and expenses for the year	-	555,453,609	555,453,609
Total changes	-	555,453,609	555,453,609
Balance at 01 July 2008	**-**	**551,902,981**	**551,902,981**
Changes in net assets			
Surplus for the year	-	57,881,777	57,881,777
Difference re 2007 prior year error	-	255,957	255,957
Changes in accounting policy, implementation of GRAP	-	983,620	983,620
Total changes	-	59,121,354	59,121,354
Balance at 30 June 2009	**-**	**611,024,335**	**611,024,335**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2009	2008
Cash flows from operating activities			
Cash generated from (used in) operations	33	15,807,126	(12,625,446)
Interest income		5,832	20,260
Finance costs		(8,674,581)	(8,901,739)
Net cash from operating activities		**7,138,377**	**(21,506,925)**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(31,342,670)	(47,066,663)
Sale of financial assets		(5,800)	-
Net cash from investing activities		**(31,348,470)**	**(47,066,663)**
Cash flows from financing activities			
Repayment of other financial liabilities		(3,388,948)	47,323,751
Finance lease payments		(42,001)	118,571
Net cash from financing activities		**(3,430,949)**	**47,442,322**
Total cash movement for the year		**(27,641,042)**	**(21,131,266)**
Cash at the beginning of the year		(20,696,334)	434,931
Net increase (decrease) in cash and cash equivalents	12	**(48,337,376)**	**(20,696,335)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

Standard Title of Standard
GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associate
GRAP 8 Interest in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events after the reporting date
GRAP 16 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-current Assets held for Sale and Discontinued Operations
GRAP 101 Agriculture
GRAP 102 Intangible Assets
IFRS 3 (AC 140) Business Combinations
IFRS 4 (AC 141) Insurance Contracts
IFRS 6 (AC 143) Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144) Financial Instruments: Disclosures
IAS 12 (AC 102)Income Taxes
IAS 19 (AC 116) Employee Benefits
IAS 32 (AC 125) Financial Instruments: Presentation
IAS 36 (AC 128) Impairment of Assets
IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, as detailed above, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5, as issued by the accounting Standards Board.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio

1.1 Significant judgements and sources of estimation uncertainty (continued)

basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the statement of financial position date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Post retirement benefits

Payments to defined contribution retirement benefit plans are charged to the Statement of Financial Performance as they fall due. Payments made to industry managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed on a regular basis on defined benefits contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 40% of the medical aid membership fee, and the Council for the

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

remaining 60%. The medical aid contributions are charged to the Statement of Financial Performance as they fall due. The additional cost effect of defined benefit retirement funds is immaterial and the costs thereof are charged to the Statement of Financial Performance as they fall due. The Municipality's net obligation in respect of post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods whereby that benefit is discounted to determine its present value. The actuarial valuation is performed by an independent qualified actuary on a regular basis using the projected unit credit method. When the calculation results in a benefit to the municipality, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. The actuarial gain is transacted in full in the Statement of Financial Performance and not calculated and accounted for according to the "corridor" method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Statement of Financial Performance on a straight line basis over the average period until the benefits become vested. When the benefits become vested, the expense is recognised immediately in the Statement of Financial Performance.

Effective interest rate

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

1.2 Investment property

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.3 Property, plant and equipment

Accounting Policies

1.3 Property, plant and equipment (continued)

Initial Recognition

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

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

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

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

Subsequent Measurement - Cost Model

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	**Average useful life**
Land	
• Land	Infinite
Buildings	
• Buildings	30
Infrastructure	
• Roads and Paving	10 - 30
• Pedestrian Malls	20
• Electricity	10 - 30
• Water	15 - 20
• Sewerage	15 - 40
• Security	3 - 5
Community	
• Buildings	30
• Recreational Facilities	20
• Landfill Sites	50
Other property, plant and equipment	
• Buildings	30
• Specialists Vehicles	10
• Other Vehicles	3 - 20
• Office Equipment	3 - 5
• Furniture & Fittings	7 -10
• Watercraft	15
• Bins and Containers	5
• Specialised Plant and equipment	5 - 15
• Other items of plant and equipment	5

1.3 Property, plant and equipment (continued)

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

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

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

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

Derecognition

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

1.4 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

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

Intangible assets are initially recognised at cost.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

1.4 Intangible assets (continued)

amortised over its useful life.

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

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

Item	**Useful life**
Computer software	3 years
Website development costs	3 years

1.5 Financial instruments

Classification

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

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

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

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

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

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

Accounting Policies

1.5 Financial instruments (continued)

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

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

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

1.5 Financial instruments (continued)

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

Financial liabilities and equity instruments

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

Gains and losses

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

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

Derecognition

Financial assets

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

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

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

Financial liabilities

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

Impairment of financial assets

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

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred,

1.5 Financial instruments (continued)

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

1.6 Leases

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

Finance leases – lessee

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

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

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

Operating leases - lessor

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

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

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

Operating leases – lessee

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

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

1.7 Inventories

Inventories 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.

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

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

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

1.7 Inventories (continued)
write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Non-current assets held for sale (and) (disposal groups)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of assets

The municipality assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

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

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

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

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

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

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

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

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

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

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill

1.9 Impairment of assets (continued)
is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

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

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

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

1.11 Provisions and contingencies

1.11 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

1.12 Government grants

Revenue received from conditional grants, donations and funding shall be recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability shall be recognised in the Statement of Financial Position. Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

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

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

1.13 Revenue from exchange transactions

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.13 Revenue from exchange transactions (continued)

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 statement of financial position 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 associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

Contract revenue comprises:
- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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

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

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

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

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

Revenue from the issuing of fines is recognised when payment are received.

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

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

1.15 Grants, transfers and donations

Grants and donations are recognised as revenue when:

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

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

1.16 Investment income

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

1.17 Borrowing costs

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

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

The capitalisation of borrowing costs commences when:

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

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

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

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

1.20 Irregular expenditure (continued)

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 Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Presentation of Currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

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

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.25 Conditional Grants and receipts

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

2. Changes in accounting policy

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

- IAS32 Financial Instruments: Disclosure and Presentation
- IAS39 Financial Instruments: Recognition and Measurement

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 is as follows:

Statement of financial position

	2009	2008
Statotory Funds		
Previously stated	-	6,195,135
Transfered to Accumulated Surplus/Deficit	-	(6,195,135)
	-	-
Reserves		
Previously stated	-	7,506,126
Transfered to Accumulated Surplus/Deficit	-	(7,506,126)
	-	-
Loans Redeemed and other Capital Receipts		
Previously stated	-	528,135,241
Transfered to Accumulated Surplus/Deficit	-	(528,135,241)
	-	-
Finance Lease Liability		
Previously stated	-	118,571
Transfered to Accumulated Surplus/Deficit	-	(118,571)
	-	-
Inventory		
Water Inventory recorded	-	128,369
Transfered to Accumulated Surplus/Deficit	-	(128,369)
	-	-
Provisions		
Provision for landfill site	(4,427,500)	-
Transfered to Accumulated Surplus/Deficit	4,427,500	-
	-	-
Intangible assets		
Intangible assets recorded	983,620	-
Transfered to Accumulated Surplus/Deficit	(983,620)	-
	-	-
Opening retained earnings		
Previously stated	-	(3,550,148)
Transfer of statutory funds	-	11,933,427
	-	**8,383,279**

Statement of financial performance

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

2. Changes in accounting policy (continued)

Revenue - Service Charges Water

Adjustment	-	2,370,300

Revenue - Service Charges Electricity

Adjustment	-	3,367,992

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

IFRS 7 (AC 144) Financial Instruments: Disclosures

The effective date of the standard is for years beginning on or after 01 January 2007.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance.

The following Directives also need to be considered:

Directive 3 - Transitional provisions for high capacity municipalities requires that the Standard will only apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 9: Revenue from Exchange Transactions

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

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

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

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

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

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

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

The following Directives also need to be considered:

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

The effective date of the standard is for years beginning on or after 01 July 2008.

3. New standards and interpretations (continued)

The municipality has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 12: Inventories

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

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

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:
- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 13: Leases

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

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

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

The following Directives also need to be considered:

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 14: Events after the reporting date

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

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)
approval from management to be issued to the executive authority or municipal council.

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

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

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 16: Investment Property

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

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

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

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

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

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

The following Directives also need to be considered:

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements. The municipality has accepted the Transitional Provisions as per directive 4 for the Adoption of Standards of GRAP for Medium and Low Capacity Municipalities

The impact will be material but the extent thereof can not be determined.

GRAP 17: Property, Plant and Equipment

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

The following Directives also need to be considered:

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements. The municipality has accepted the Transitional Provisions as per directive 4 for the Adoption of Standards of GRAP for Medium and Low Capacity Municipalities. The municipality has not finalised the procress of itemizing all infrastructure and community assets. The municipality expect to complete this process by the 30 of June 2011. At assets are carried at the global historical costs recorded in the accounting records as recorded.

The impact will be material but the extent thereof can not be determined..

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements.The municipality has accepted the Transitional Provisions as per directive 4 for the Adoption of Standards of GRAP for Medium and Low Capacity Municipalities

The impact of the standard is set out in note 2 Changes in Accounting Policy.

3. New standards and interpretations (continued)

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

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

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

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements. The municipality has accepted the Transitional Provisions as per directive 4 for the Adoption of Standards of GRAP for Medium and Low Capacity Municipalities

The impact of the standard is not material.

GRAP 102: Intangible Assets

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

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

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

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

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements The municipality has accepted the Transitional Provisions as per directive 4 for the Adoption of Standards of GRAP for Medium and Low Capacity Municipalities.

The impact of the standard is set out in the note of changes in accounting policies.

3. New standards and interpretations (continued)

IPSAS 21: Impairment of Non Cash-Generating Assets

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements. the municipality has not tested for impairment of non cash generating assets.

The impact of the standard is not material.

IPSAS 20: Related Party Disclosure

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

The effective date of the standard is for years beginning on or after 01 July 2008.

The municipality has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

3.2 Standards and interpretations not yet effective

The municipality has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2009 or later periods:

May 2008 Annual Improvements to IFRS’s: Amendments to IFRS 7 (AC 144) Financial Instruments: Disclosures

The amendment relates to changes in the Implementation Guidance of the Standard. ‘Total interest income’ was removed as a component of finance costs from paragraph IG13. This was to remove inconsistency with the requirement of IAS 1 (AC 101) Presentation of Financial Statements which precludes the offsetting of income and expenses.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

May 2008 Annual Improvements to IFRS’s: Amendments to IAS 19 (AC 116) Employee Benefits

With regards to curtailments and negative past service costs clarification has been made that:

- When a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost;
- Negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and
- A curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.

3. New standards and interpretations (continued)

The definition of ‘return on plan assets’ has also been amended to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.

The term “fall due” in the definition of “short term employee benefits” has been replaced with “due to be settled”

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

May 2008 Annual Improvements to IFRS’s: Amendments to IFRS 7 (AC 144) Financial Instruments: Disclosures; IAS 32 (AC 125) Financial Instruments: Presentation; IAS 28 (AC 110) Investments in Associates and IAS 31 (AC 119) Interests in Joint Ventures

The amendment adjusted the disclosure requirements of investments in associates and interests in joint ventures which have been designated as at fair value through surplus or deficit or are classified as held for trading. The amendment provides that only certain specific disclosure requirements of IAS 28 (AC 110) Investments in Associates and IAS 31 (AC 119) Interests in Joint Ventures are required together with the disclosures of IFRS 7 (AC 144) Financial Instruments: Disclosures; IAS 32 (AC 125) Financial Instruments: Presentation.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

May 2008 Annual Improvements to IFRS’s: Amendments to IAS 36 (AC 128) Impairment of Assets

The amendment requires disclosures of estimates used to determine the recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives. Specifically, the following disclosures are required when discounted cash flows are used to estimate fair value less costs to sell:

- The period over which management has projected cash flows;
- The growth rate used to extrapolate cash flow projections; and
- The discount rate(s) applied to the cash flow projections.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

May 2008 Annual Improvements to IFRS’s: Amendments to IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

IAS 39 (AC 133) prohibits the classification of financial instruments into or out of the fair value through surplus or deficit category after initial recognition. The amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.

The amendments have also removed references to the designation of hedging instruments at the segment level.

The amendments further clarify that the revised effective interest rate calculated when fair value hedge accounting ceases, in accordance with paragraph 92 IAS 39 (AC 133) should be used for the re-measurement of the hedged item when paragraph AG8 of IAS 39 (AC 133) is applicable.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

IAS 39 (AC 133) Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items

The amendment provides clarification on two hedge accounting issues:
- Inflation in a financial hedged item and
- A one sided risk in a hedged item.

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

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

Amendment to IAS 39 (AC 133) and IFRS 7 (AC 144): Reclassification of Financial Assets

The amendment permits an entity to reclassify certain financial assets out of the fair value through surplus or deficit category if certain stringent conditions are met. It also permits an entity to transfer from the available-for-sale category to loans and receivables under certain circumstances. Additional disclosures are required in the event of any of these reclassifications.

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

The municipality expects to adopt the amendment for the first time in the 2010 annual financial statements.

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

GRAP 18: Segment Reporting

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2011 annual financial statements.

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

GRAP 23: Revenue from Non-exchange Transactions

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

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

3. New standards and interpretations (continued)

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

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

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

The municipality expects to adopt the standard for the first time in the 2010 annual financial statements.

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

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2010 annual financial statements.

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

GRAP 103: Heritage Assets

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

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

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

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and

3. New standards and interpretations (continued)

- the cost of fair value of the asset can be measured reliably.

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

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

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

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

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:

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

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

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

The municipality expects to adopt the standard for the first time in the 2010 annual financial statements.

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

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

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

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

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

The municipality expects to adopt the interpretation for the first time in the 2010 annual financial statements.

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

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2009 or later periods but are not relevant to its operations:

Figures in Rand	2009	2008

4. Property, plant and equipment

	2009			2008		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Game	1,935,175	-	1,935,175	1,935,175	-	1,935,175
Other Assets	588,257,256	-	588,257,256	557,275,796	-	557,275,796
Capitalised leased assets	594,714	(516,107)	78,607	594,714	(484,669)	110,045
Total	**590,787,145**	**(516,107)**	**590,271,038**	**559,805,685**	**(484,669)**	**559,321,016**

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Transfers	Depreciation	Total
Other property, plant and equipment	1,935,175	-	-	-	1,935,175
Other assets	557,275,796	31,342,670	(361,210)	-	588,257,256
Capitalised leased assets	110,045	-	-	(31,438)	78,607
	559,321,016	**31,342,670**	**(361,210)**	**(31,438)**	**590,271,038**

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Depreciation	Total
Other property, plant and equipment	1,935,175	-	-	1,935,175
Other equipment	510,803,847	46,471,949	-	557,275,796
Capitalised leased assets	-	594,714	(484,669)	110,045
	512,739,022	**47,066,663**	**(484,669)**	**559,321,016**

Pledged as security

Carrying value of assets pledged as security:

Prior period errors, refer to Note 36 for the following:

Game stock were understated in the prior year and the value had to be adjusted accordingly, R249 058.

Assets have been overstated, the bucket eradication system were incorrectly capitalised and not expensed, R15 574 713.

Take on values of paintings previously not recorded in the financial management system, R640 000.

Assets subject to finance lease (Net carrying amount)

	2009	2008
Other equipment	588,257,256	557,275,796
Capitalised leased assets	78,607	110,045
	588,335,863	**557,385,841**

The municipality has opted to take the advantage of directive 4 issued by the ASB. The municipality however did not complete the itemization of its infrastructure and community assets. The municipality expects to complete this process by 2011

5. Intangible assets

	2009			2008		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**

Figures in Rand	2009	2008

5. Intangible assets (continued)

Computer software	983,620	-	983,620	-	-	-

Reconciliation of intangible assets - 2009

	Opening Balance	Transfers	Total
Computer software	-	983,620	983,620

6. Other financial assets

	2009	2008
Loans and receivables		
Absa fixed deposit	326,531	326,531
Co-operative fund Fouriesburg	36,494	36,132
Co-operative fund Rosendal	14,602	14,602
Sanlam	556,244	505,308
Sanlam listed shares 2714634125	51,637	51,637
Sanlam listed shares 2714634346	42,124	42,124
Standard Bank	45,312	45,312
Absa fixed deposit 2057103524	92,564	86,936
	1,165,508	**1,108,582**

	2009	2008
Non-current assets		
Loans and receivables	1,165,508	1,108,582

The fair values of the financial assets were determined as follows:

- The fair values of listed or quoted investments are based on the quoted market price.
- The fair values on investments not listed or quoted are estimated using the values as provided by the relevant institution.

Fair values was determined by accepting the valuation received from the relevant institutions who has good external credit ratings.

Prior period errors, refer to note 36 for the following:

AFGRI shares were written off, (R16 080).

Investment in fixed deposit brought into account as it was previously not accounted for, (R43 732)

Fair values of loans and receivables

Other financial assets are carried at amortised cost. The carrying value of other financial assets are revied at each reporting date. The fair value was determined by using the valuation as determined by the relevant institution. The fair value is also the face value of the outstanding balances. The different institutions have external credit ratings.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.The municipality has accepted the valuation as supplied by the different institutions holding the investments.

7. Financial assets by category

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

2009

Figures in Rand	2009	2008

7. Financial assets by category (continued)

	Loans and receivables	**Total**
Other financial assets	1,165,508	1,165,508
Trade and other receivables	159,568,914	159,568,914
Cash and cash equivalents	(48,337,376)	(48,337,376)
	112,397,046	**112,397,046**

2008

	Loans and receivables	**Total**
Other financial assets	1,108,582	1,108,582
Trade and other receivables	108,977,035	108,977,035
Cash and cash equivalents	(20,696,334)	(20,696,334)
	89,389,283	**89,389,283**

8. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

The municipality has not yet determined its obligation in terms of post retirement medical benefits paid on behalf of its employees. An actuarial valuation will be done in the 2010 financial year.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All Councilors and employees belong to 3 defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 is being finalised and will be submitted to the municipality once approved by the executive committee of the fund. No information could be obtained for the other two funds regarding the administrators nor the actuarial valuations.

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

9. Inventories

Consumable stores at cost	2,097,858	1,922,333
Water at cost	144,670	128,369
Fuel (Diesel, Petrol) at cost	701,372	230,801
	2,943,900	**2,281,503**

10. Trade and other receivables from exchange transactions

Trade debtors	158,548,012	107,635,768
Other receivables	1,017,734	1,337,992
Bank Errors	3,164	3,273
	159,568,910	**108,977,033**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates: Fair value was determined by accepting the face value on outstanding capital

Trade receivables

10. Trade and other receivables from exchange transactions (continued)

Fair value of trade and other receivables

The fair value was determined by using the face value of outstanding capital.

11. Consumer debtors

Summary of debtors by customer classification

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

Fair value of consumer debtors

The fair value was determined by using the face value of outstanding capital.

Consumer debtors impaired

As of 30 June 2009, consumer debtors of R 12,805,808 (2008: R 15,940,392) were impaired and provided for.

The amount of the provision was R 16,431,416 as of 30 June 2009 (2008: R 105,796,757).

The ageing of these loans is as follows:

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 25).

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.

Refer to **Annexure A** for the Disclosure of Debtors per class and per category.

Prior period error, refer to note 36 for the following:

The provision for bad debts were misstated and had to be adjusted accordingly, R482.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash	45,130	23,784
Bank overdraft	(48,382,506)	(20,720,118)
	(48,337,376)	**(20,696,334)**

Current assets	45,130	23,784
Current liabilities	(48,382,506)	(20,720,118)
	(48,337,376)	**(20,696,334)**

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

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		
	30 June 2009	**30 June 2008**	**30 June 2007**	**30 June 2009**	**30 June 2008**	**30 June 2007**

Notes to the Annual Financial Statements

Figures in Rand					2009	2008

12. Cash and cash equivalents (continued)

Absa-Cheque account 4052898966	(9,181,389)	(5,343,780)	(1,442,993)	(51,985,749)	(19,844,362)	-
Absa-Cheque account 1000010223	247,645	-	-	3,460,408	100,521	-
Total	**(8,933,744)**	**(5,343,780)**	**(1,442,993)**	**(48,525,341)**	**(19,743,841)**	**-**

13. Other financial liabilities

	2009	2008
Held at amortised cost		
DBSA- Loan 1	3,942,089	4,155,767
DBSA - loan1 bears interest at a fixed rate of 5% per annum. Arrears at 7% per annum. Monthly installments of R 136,197.75 over a period of 60 months, 20 months remaining.		
INCA- SANLAM 139/12	505,412	583,258
INCA 179	1,934,243	2,262,645
INCA 23 FOURIESBURG	8,523	9,970
INCA 139	1,435,338	1,890,435
INCA 140	876,406	1,151,611
INCA Loan 13		
DBSA - Loan 2	35,201,614	37,238,887
DBSA- loan 2 bears interest at a fixed rate of 14.5% per annum. Arrears at 16,5% per annum. Monthly installments of R 517,222.94 over a period of 180 months, 133 months remaining.		
	43,903,625	**47,292,573**
Non-current liabilities		
At amortised cost	39,855,587	47,292,573
Current liabilities		
At amortised cost	4,048,038	-
	43,903,625	**47,292,573**

Fair value was determined by using the valuation as done by the relevant institutions who has external credit ratings. Financial liabilities are caried at amortised cost. The fair value is the face value of the outstanding capital.

Prior period error, refer to note 36 for the following:

An additional loan was taken up and incorrectly recorded as an expense item instead of increasing the liability, (R633 289).

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

14. Finance lease obligation

	2009	2008
Minimum lease payments due		
- within one year	42,000	42,000
- in second to fifth year inclusive	63,000	105,000
	105,000	147,000
less: future finance charges	(15,220)	(28,429)
Present value of minimum lease payments	**89,780**	**118,571**

	2009	2008
Present value of minimum lease payments due		
- within one year	32,604	28,792
- in second to fifth year inclusive	57,176	89,779
	89,780	**118,571**

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

The average lease term was 5 years and the average effective borrowing rate was 13% (2008: 15%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

15. Provisions

Reconciliation of provisions - 2009

	Opening Balance	Additions	Reversed during the year	Total
Rehabilitation of Landfill Site	-	4,427,500	-	4,427,500
Annual Bonus	2,159,511	295,573	-	2,455,084
Legal costs	335,500	-	(20,000)	315,500
Rehabilitation dumping site	-	1,024,317	-	1,024,317
	2,495,011	**5,747,390**	**(20,000)**	**8,222,401**

Reconciliation of provisions - 2008

	Opening Balance	Additions	Total
Annual Bonus	-	2,159,511	2,159,511
Legal costs	-	335,500	335,500
	-	**2,495,011**	**2,495,011**

	2009	2008
Non-current liabilities	4,427,500	-
Current liabilities	3,794,901	2,495,011
	8,222,401	**2,495,011**

Prior period error, refer to note 36 for the following:

The provision for free basic services written off were overstated in the prior year and had to be adjusted accordingly, R931 394.

16. Trade and other payables from exchange transactions

	2009	2008
Trade payables	12,910,675	6,313,914
Accrued leave pay	5,273,484	4,876,294
Accrued expense	-	4,851
Deposits received	3,215,549	2,910,937

Figures in Rand	2009	2008

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

Suspense accounts	15,865,654	12,869,720
Unspend Grants	-	4,944,975
Debtors payment in advance	(31,941)	5,317,305
	37,233,421	**37,237,996**

Prior period error, refer to note 36 for the following:

The suspense accounts were cleared by the Municipality, R234 318

17. Taxes and transfers payable

VAT	6,122,039	12,134,490

18. Revenue

Rendering of services	215,352,551	179,948,431
Interest received	17,987,900	11,833,484
Fines	501,898	254,289
Licences and permits	(5,028)	14,125
Government grants	88,750,610	89,345,424
	322,587,931	**281,395,753**

Traffic fines are recognised as the income is received as per the Accounting Policy of the Municipality.

The total outstanding fines as at 30 June 2009, R1 209 970 (2008: R656 195) were not included in debtors as it is uncertian whether future economic benefits will flow to the Municipality.

Prior period error, refer to note 36 for the following:

Income was overstated in the prior year and had to be adjusted accordingly, (R1 750 000)

19. Property Rates

Rates received

Property rates	53,068,426	49,303,407

20. Service charges

Sale of electricity	77,678,273	54,883,033
Sale of water	30,083,610	32,339,136
Sewerage and sanitation charges	28,798,577	23,443,492
Refuse removal	24,675,827	17,393,896
	161,236,287	**128,059,557**

21. Government grants and subsidies

Councillors Remuneration Grant	1,963,447	1,330,508
Equitable share (Indigents)	60,866,847	45,459,098
Equitable share (Free basic electricity)	2,617,929	1,823,354
Grant fire brigade services	64	2,636,052
Grant National road subsidy	17,100	(744)
Grant Recurrent financial support	527,248	2,738,305
MIG Grant	22,022,975	35,358,851
MSIG Grant	735,000	-
	88,750,610	**89,345,424**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

22. General expenses

Advertising	457,932	434,508
Assessment rates & municipal charges	73,461	71,777
Auditors remuneration	1,658,364	2,727,248
Bank charges	950,917	740,868
Consulting and professional fees	7,596,245	2,418,498
Consumables	408,231	246,847
Donations	1,943,746	4,546,445
Entertainment	874,433	723,472
Fines and penalties	18,505	283,500
Hire	3,155,645	2,222,203
Insurance	2,073,324	2,402,733
Community development and training	4,164,427	4,071,298
Fleet	290,693	-
Marketing	461,919	1,104,048
Promotions and sponsorships	1,740,169	596,657
Magazines, books and periodicals	348,526	567,227
Productions	53,468	-
Postage and courier	767,384	706,399
Printing and stationery	846,420	810,739
Royalties and license fees	84,612	42,476
Security (Guarding of municipal property)	3,486,331	3,423,678
Staff welfare	227,023	85,323
Subscriptions and membership fees	738,003	1,445,997
Telephone and fax	1,592,826	1,485,734
Training	1,233,630	1,918,804
Assets expensed	2,564,999	2,488,504
Electricity	10,436,214	7,800,979
Sewerage and waste disposal	604,676	677,744
Water	2,235,029	1,464,044
Refuse	-	1,845
Uniforms	805,158	153,447
General expenses	2,994,665	33,682,034
Bursaries	1,194,817	-
Rehabilitation landfill site	4,427,500	-
Capital budget	4,519,480	-
Chemicals	941,224	743,027
Other expenses	9,423,097	5,312,707
	75,393,093	**85,400,810**

Prior period error, refer to note 36 for the following:

Wages that were paid during the year were not claimed and it had to be reversed, (R10 047).

Legal costs previously not provided for in terms of insurance claims, (R20 000).

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

23. Employee related costs

Basic	62,829,971	64,357,558
Medical aid - company contributions	5,790,348	5,198,249
UIF	626,557	616,557
Other payroll levies	31,454	11,579
Leave pay provision charge	2,127,532	2,819,180
Post-employment benefits - Pension - Defined contribution plan	1,113,277	1,082,413
Travel, motor car, accommodation, subsistence and other allowances	584,028	1,129,818
Overtime payments	2,342,633	4,050,321
Acting allowances	1,692,596	464,864
Transport allowance (bus coupons)	6,794,778	6,846,988
Car allowance	2,499,217	3,027,356
Group life insurance	129,800	167,444
Pension funds	9,854,334	9,354,456
	96,416,525	**99,126,783**

Remuneration of municipal manager

Annual Remuneration	590,345	452,797
Performance Bonuses	241,164	178,149
Contributions to UIF, Medical and Pension Funds	99,068	64,708
Leave pay out	135,440	122,197
Cellphone Allowance	18,000	8,500
Re-imbursive travel and subsistence allowance	65	-
	1,084,082	**826,351**

Remuneration of chief finance officer

Annual Remuneration	467,500	443,560
Car Allowance	155,833	148,333
Contributions to UIF, Medical and Pension Funds	5,829	1,440
Leave pay out	164,560	-
Re-imbursive travel and subsistence allowance	4,598	-
	798,320	**593,333**

Remuneration of executive directors

Annual Remuneration	2,150,500	1,716,731
Car Allowance	716,833	570,416
Performance Bonuses	41,000	-
Contributions to UIF, Medical and Pension Funds	22,989	5,652
Leave pay out	227,392	44,000
Acting allowance	-	44,128
Re-imbursive travel and subsistence allowance	14,642	-
	3,173,356	**2,380,927**

24. Remuneration of councillors

Executive Major	405,008	-
Members of executive committee	1,193,115	-
Speaker	327,202	-
Councillors	3,582,337	3,391,638
Transport allowances	1,691,150	1,019,281
Best practice for councillors	112,164	367,496
Transport allowances	161,148	168,321
	7,472,124	**4,946,736**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

24. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

25. Debt impairment

Contributions to bad-debt provision	12,826,290	15,940,392

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

26. Investment revenue

Interest revenue		
Other interest	5,832	20,260

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 5,832 (PY: R 20,260).

27. Finance costs

Finance leases	13,209	-
Other interest paid	8,674,581	8,901,739
	8,687,790	**8,901,739**

28. Auditors' remuneration

Fees	1,658,364	2,727,248

29. Operating lease

Describe the lessee’s significant leasing arrangements which include:
- basis on which contingent rent payable is determined.
- the existence and terms of renewal or purchases options and escalation clauses; and
- restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.
  I
  It was not possible to equalize the operating leases.

30. Contracted Services

Meter reading services	864,290	1,835,496

31. Grants and subsidies paid

Other subsidies		
Free basic electricity services	278,155	1,553,955

32. Bulk purchases

Electricity	43,948,161	32,120,012

33. Cash generated from (used in) operations

Surplus before taxation	57,881,777	28,610,415
Adjustments for:		
Depreciation and amortisation	31,438	-
Interest received	(5,832)	(20,260)
Finance costs	8,687,790	8,901,739
Fair value adjustments	(51,126)	-
Transfer of game stock non cash item	-	1,935,175
Movements in provisions	5,727,390	2,495,011
Transfer of assets	361,261	-
Difference to 2007 prior year error	255,909	-
PPE purchases out of own funds transfer	-	11,113,098
Changes in working capital:		
Inventories	(662,397)	(2,285,625)
Trade and other receivables from exchange transactions	(50,591,880)	(109,227,217)
Prepayments	189,822	(189,822)

Notes to the Annual Financial Statements

Figures in Rand	2009	2008
33. Cash generated from (used in) operations (continued)		
Correction prepaid cash item	-	189,822
Legal fees cash item.	-	(20,000)
Undefined difference	-	(7,778)
Trade and other payables from exchange transactions	(4,575)	33,644,502
VAT	(6,012,451)	12,235,494
	15,807,126	**(12,625,446)**

34. Commitments

Authorised capital expenditure

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

35. Contingencies

District Levies: Thabo Mofutsanyana District Municipality:

The above-mentioned case is regarding outstanding district levies that is payable by the District Municipality. The estimated amount is R1 500 000.

Katushya Security Services vs Dihlabeng Local Municipality:

The Council terminated the contract as Katushya Security Services did not render proper security services as per the contract according to council. The estimated amount is R100 000

South African Municipal Worker Union and Khotle and 8 others vs Dihlabeng Local Municipality:

Employees at the Fouriesburg unit are of the opinion that Counicl illegally deducted payments from their salaries. The estimated amount is R500 000.

Arcell System:

The case against Council is for an amount due for computer hardware that was purchased by the Municipality. The estimated amount is R80 000.

K Potgieter t/a Orca Inflatables:

There were fraudulent activities with regards to inflatable boats and the estimated amount is R1 500 000.

EMM Erasmus:

A resident injured herself on a damaged sidewalk. The estimated amount is R50 000.

S van Niekerk:

The resident injured him/herself on a damaged sidewalk. The estimated amount is R50 000.

Little Meade No 52 (Pty) Ltd:

A site / stand were sold to a number of residents. The estimated amount is R100 000.

GD van Zyl:

A sale of a site to Mr van Zyl took place in Fouriesburg but on the site is a Municipal pump station and no servitude was registered. The estimated amount is R100 000.

Streicher SF and AM:

This is regarding an electrical fault that happened in Rosendal. The estimated amount is R50 000.

AJ Fourie:

Mr AJ Fourie who is an employee of the Council, applied for medical unfitness but the application was declined by the provident fund and is claiming the loss from the Council. The estimated amount is R750 000.

Mr J Prinsloo (Electrical Section):

The employee was injured on duty and the Department of Labour referred the matter to the court to establish whether the cause of the accident were negligence. The estimated amount is R500 000.

36. Prior period errors

Correction of Misstatements Prior Year - Ex 104 Understatement of Game Stock, (R249 058). Refer to Note 4. Game stock

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

36. Prior period errors (continued)

were understated in the Prior year and the value had to be adjusted accordingly.

Correction of Misstatements Prior Year - Ex 182 opening balance Provision for Bad Debts, (R482). Refer to Note 11. The opening balance for the Provision of Bad Debts were mistated and had to be adjusted accordinly.

Correction of Misstatements Prior Year - Ex 119 overstatement of provisions for free basic services written off, (R931 394,13). Refer to Note 15. The provision for free basic services written off were overstated in the prior year and had to be adjusted accordingly.

Correction of Misstatements Prior Year - Ex 28 Salary payment was stopped due to instructions from HR (Unclaimed Salaries), R10 047. Refer to Note 22. Wages that were paid during the year were not claimed and it had to be reversed.

Correction of Misstatements Prior Year - Ex 190b Shares AFGRI to be written off, R16 080. Refer to Note 6. The AFGRI shares were written off.

Correction of prior year error - Ex 151 Assets have been overstated, the eradication of the bucket system need to be expensed, (R15 574 712,58). Refer to Note 4. Bucket eradication expenditure were incorrectly capitalised, instead it should be expensed as it is not of a capital nature.

Correction of Error - Ex 184, Allocation direct income, R1 750 000. Refer to Note 18. Income was overstated in the prior year and had to be adjusted accordingly.

Correction of Error - DIR 5865, Legal Costs, R20 000. Refer to Note 22. Legal costs previously not provided for in terms of insurance claims.

Correction of Error - 13501, Take on values for paintings previously not recorded, (R640 000). Refer to Note 4. Take on values of paintings previously not recorded in the financial management system.

Clearing of suspense account as per Municipality.2008, (R234 317,63). Refer to Note 16. The suspense accounts were cleared as per the Municipality.

Correction of prior year- Addition to DBSA loan was posted as a payment.2008, R633 288,63. Refer to Note 13. An additional loan was taken up and incorrectly recorded as an expense item instead of increasing the liability.

Investment in fixed deposit brought into account for the 2008 Financial year. (R43 731,88). Refer to Note 6. The investment in fixed deposit was not accounted for previously.

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

Statement of financial position		
Property, plant and equipment	-	14,685,655
Trade Receivables	-	(482)
Investments	-	(27,652)
Trade Creditors	-	(234,318)
External Loans	-	633,289
Statement of financial performance		
Revenue - Service Charges	-	(2,681,394)
Employee Costs - Unclaimed Wages	-	10,047
Legal fees	-	20,000

37. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

38. Risk management

Financial risk management

Figures in Rand	2009	2008

38. Risk management (continued)

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

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

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

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

39. Going concern

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.

40. 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.

41. Fruitless and wasteful expenditure

Fruitless expenditure due to interest paid on bank account/creditors	904,800	-

42. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	1,568,364	2,727,248
Amount paid - previous years	2,727,248	2,917,071
	4,295,612	**5,644,319**

PAYE and UIF

Figures in Rand	2009	2008

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

	2009	2008
Amount paid - current year	626,557	616,557
Amount paid - previous years	616,557	617,997
	1,243,114	**1,234,554**

Pension and Medical Aid Deductions

	2009	2008
Amount paid - current year	16,757,959	15,635,119
Amount paid - previous years	15,635,119	15,705,479
	32,393,078	**31,340,598**

VAT

	2009	2008
VAT payable	6,122,039	12,134,490

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

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

Councillors' arrear consumer accounts

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

30 June 2009	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
N C BUKHALI	1,230	2,992	4,222
M H MOFOKENG	640	751	1,391
H E MOKOENA	882	697	1,579
M J HATLA	1,966	40,264	42,230
M S MASEKO	1,377	11,790	13,167
R P MOFOKENG	1,070	11,812	12,882
V D MZIZI	4,983	48,679	53,662
S MSIMANGA	651	885	1,536
M J TSHABALALA	1,115	3,015	4,130
S E MOSIA	830	16,805	17,635
M A MOKOENA	1,530	365	1,895
C P CHANGUBE	568	1,890	2,458
M K MOFOKENG	11,778	38,856	50,634
	28,620	**178,801**	**207,421**

30 June 2008	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ TSHABALALA	-	307	307
S MSIMANGA	-	17,773	17,773
TM MOFOKENG	-	1,710	1,710
MJ TSHABALALA	-	3,536	3,536
NC BUKHALI	-	5,759	5,759
MP JACOBS	-	11,335	11,335
MS MASEKO	-	19,323	19,323
MJ HATLA	-	32,783	32,783
MH MOFOKENG	-	235	235
K MOFOKENG	-	203	203

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

	-	**92,964**	**92,964**

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

30 June 2009	**Highest outstanding amount**	**Aging (in days)**
V D MZIZI	53,662	-
M K MOFOKENG	50,634	-
M J HATLA	42,231	-
S E MOSIA	17,636	-
M S MASEKO	13,167	-
R P MOFOKENG	12,882	-
N C BUKHALI	4,223	-
M J TSHABALALA	3,893	-
C P CHANGUBE	2,459	-
M A MOKOENA	1,895	-
S MSIMANGA	1,536	-
M H MOFOKENG	1,931	-
	206,149	**-**

30 June 2008	**Highest outstanding amount**	**Aging (in days)**
MJ Hatla	32,783	-
MS Maseko	19,323	-
S Msimanga	17,773	-
MP Jacobs	11,335	-
NC Bukhali	5,759	-
MJ Tshabalala	3,536	-
TM Mofokeng	1,710	-
TJ Tshabalala	307	-
MH Mofokeng	235	-
K Mofokeng	203	-
	92,964	**-**