Mangaung Local Municipality
Annual Financial Statements
for the year ended 30 June 2010

General Information

Legal form of entity	An organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	Providing municipal services and maintaining the best interest of the local community, mainly in the Mangaung area.
Jurisdiction of entity	Area FS172, as a local municipality, as demarcated by the Demarcation Board and indicated in the demarcation map published for FS172.
Mayoral committee	
Executive Mayor	Mr FK Morule
Councillors	
Speaker	Councillor AT Stander
Deputy Executive Mayor	Councillor MA Siyonzana
Councillor Members of The Mayoral Committee	Councillor SKM Choene
	Councillor KNL Makhanya
	Councillor A Marais
	Councillor NG Mokotjo
	Councillor LS Moroka
	Councillor NM Mzozana
	Councillor FB Nzapheza
	Councillor AN Phupha
	Councillor CSK Sechoaro
Council Whip	Councillor SM Sefuthi
Councillors of the Council	Councillor NL Adoons
	Councillor GM Bacela
	Councillor FR Botes
	Councillor PI Chobane
	Councillor ME Dennis
	Councillor GC Dithebe
	Councillor JC Erasmus
	Councillor SE Finger
	Councillor GS Fouche
	Councillor EK Goliath
	Councillor JU Grobbelaar
	Councillor MD Hlujane
	Councillor W Horn
	Councillor JS Human
	Councillor TA Jacobs
	Councillor TB Jacobs
	Councillor DE Janse van Vuuren
	Councillor CE Jenkinson
	Councillor LR July
	Councillor ZT Khi
	Councillor MS Khutlane
	Councillor JAA Lazenby

General Information

	Councillor MJ Lephoi
Councillors of the Council (continued)	Councillor SP Leraisa
	Councillor TK Litabe
	Councillor DG Lubbe
	Councillor PP Machelebeta
	Councillor TJ Makae
	Councillor MM Makhele
	Councillor BM Makoa
	Councillor M Masoabi
	Councillor MJ Matsoenslane
	Councillor MA Mavuya
	Councillor MB Mbange
	Councillor TM Mfazwe
	Councillor H Minnie
	Councillor SO Mogorosi
	Councillor BM Mohlouoa
	Councillor ME Moilwa
	Councillor LG Mokgothu
	Councillor SG Moletsane
	Councillor MR Mompati
	Councillor TA Mophethe
	Councillor B Motaung
	Councillor KJ Mtshiwane
	Councillor SS Nakedi
	Councillor WT Nkikane
	Councillor TS Nthako
	Councillor GJ Olivier
	Councillor JE Petersen
	Councillor SD Phokoje
	Councillor DJ Phuthi
	Councillor XD Pongolo
	Councillor JD Powell
	Councillor JC Pretorius
	Councillor MA Ramokone
	Councillor FP Ramokotjo
	Councillor TM Ramona
	Councillor GK Saohatse
	Councillor MA Seeco
	Councillor E Snyman- Van Deventer
	Councillor SN Soebehle
	Councillor PM Somimi
	Councillor SP Tanyane
	Councillor AP Terblanche
	Councillor AL Toba
	Councillor MM Tsomela
	Councillor PJJ Van Biljon
	Councillor JP Van Der Merwe
	Councillor R Van Der Merwe
	Councillor AS Zerwick
	Councillor NM Zophe

General Information

Grading of local authority	High Capacity Municipality
Accounting Officer	Mr. SJ Msibi
Chief Finance Officer (CFO)	Mr. BR Taye
Registered office	Bram Fisher Building Cnr Nelson Mandela Street and Markgraaff street Bloemfontein 9301
Business address	Bram Fisher Building Cnr Nelson Mandela Street and Markgraaff street Bloemfontein 9301
Postal address	P O Box 288 Bloemfontein 9300
Auditors	The Auditor-General of South Africa
Attorneys	Bezuidenhouts Attorneys Bosiu Attorneys EG Coopers Attorneys Fourie Attorneys Hill, McHardy & Herbst Attorneys Kramer Weihmann & Joubert Attorneys Mabalane Seobe Attorneys NW Phalatsi & Partners Attorneys Rosendorff Reitz Barry Attorneys Van der Merwe & Sorour Attorneys Vermaak & Dennis Attorneys
Debt collectors	Messrs Alberts Messrs Bezuidenhouts Messrs Claude Reid Messrs Hill, McHardy & Herbst Messrs Matsepes Messrs Naudes Messrs Phatshoane Henne Inc Messrs Rosendorff, Reits Barry Messrs Stander, Venter & Kleynhans Messrs Symington & De Kok Messrs Thoabala Attorney Messrs Van Wyk & Preller Messrs Vermaak & Dennis Messrs Vorster & Partners Messrs Webbers Messrs NICS (National Integrated Credit Solution)

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	The 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)
IFRS	International Financial Reporting Standards

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 were 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 Practice (GRAP).

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the he 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. 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 2011 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.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality'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 6.

The annual financial statements set out on pages 6 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

Mr. SJ Msibi
City Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2010.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community, mainly in the Mangaung area, and operates principally in South Africa.

The operating results for the year were satisfactory. The financial position of the municipality is also satisfactory.

Net surplus of the municipality was R 288,049,039 (2009: surplus R 126,425,008).

2. Going concern

We draw attention to the fact that at 30 June 2010, the municipality had accumulated surplus of R 1,910,235,572 and that the municipality's total assets exceed its liabilities by R 2,594,388,376.

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

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

3. Subsequent events

The accounting officer has evaluated the events after year end, and no matter or circumstance arising since the end of the financial year will have an impact on the current annual financial statements.

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

6. Accounting Officer

The accounting officer of the municipality, during the year and to the date of this report is, as follows:

Mr. SJ Msibi
City Manager

Statement of Financial Position

	Note(s)	2010 R	2009 R
Current Assets			
Current portion of non-current receivables	7	13,946,389	14,713,893
Inventories	10	11,438,504	6,244,099
Other receivables from exchange transactions	11	78,285,058	80,772,156
Other receivables from non-exchange transactions	12	395,802	315,258
Consumer receivables from exchange transactions	13	139,600,151	117,600,271
Cash and cash equivalents	14	45,244,821	237,908,991
		288,910,725	**457,554,668**
Non-Current Assets			
Property, plant and equipment	4	2,938,386,562	2,459,723,584
Intangible assets	5	2,808,295	5,133,548
Investments	6	10,467	8,795
Non-current receivables	7	827,734,015	754,844,579
		3,768,939,339	**3,219,710,506**
Total Assets		**4,057,850,064**	**3,677,265,174**
Liabilities			
Current Liabilities			
Current portion of non-current borrowings	20	1,976,260	1,785,058
Finance lease liability	21	1,729,214	1,611,141
Unspent conditional grants and receipts	22	231,685,748	416,585,976
Payables from exchange transactions	24	676,386,212	487,238,022
Payables from non-exchange transactions	25	3,660,624	3,251,757
VAT payable	26	86,551,700	55,870,624
Consumer deposits	27	25,107,132	23,889,773
		1,027,096,890	**990,232,351**
Non-Current Liabilities			
Defined benefit plan obligation	9	350,917,000	297,121,000
Non-current borrowings	20	10,517,382	12,493,642
Finance lease liability	21	644,738	1,334,925
Non-current provisions	23	74,285,678	69,859,875
		436,364,798	**380,809,442**
Total Liabilities		**1,463,461,688**	**1,371,041,793**
Net Assets		**2,594,388,376**	**2,306,223,381**
Net Assets			
Reserves			
Housing development fund	15	11,202,948	21,376,064
Revaluation reserve	16	584,022,037	584,022,037
Mark-to-market reserve	17	7,832	6,160
Self insurance reserve	18	74,606,710	73,132,814
COID reserve	19	14,313,277	13,654,505
Accumulated surplus		1,910,235,572	1,614,031,801
Total Net Assets		**2,594,388,376**	**2,306,223,381**

Mangaung Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

	Note(s)	2010 R	2009 R
Revenue			
Property rates	30	342,459,519	278,659,802
Service charges	31	429,965,706	389,848,564
Fines		1,385,004	4,733,684
Government grants and subsidies	32	853,818,002	722,291,389
Income for agency services		107,165,586	90,528,323
Other income	33	25,468,354	94,953,536
Licences and permits		199,304	237,948
Interest earned	39	167,795,985	156,439,702
Rental of facilities and equipment		18,678,273	18,903,447
Total Revenue		**1,946,935,733**	**1,756,596,395**
Expenditure			
General expenses	34	267,083,482	200,272,744
Employee related costs	36	681,606,853	588,275,863
Remuneration of councillors	37	21,904,381	19,902,076
Bad debts and provision for bad debts	38	82,710,130	251,028,299
Depreciation and amortisation	40	125,349,838	121,619,599
Finance costs	41	40,737,822	43,514,825
Repairs and maintenance		92,799,738	92,567,267
Contracted services	44	82,583,402	43,807,005
Grants and subsidies paid	45	46,501,136	101,120,514
Bulk purchases	46	217,442,854	168,087,285
Total Expenditure		**(1,658,719,636)**	**(1,630,195,477)**
(Profit)/Loss due to foreign exchange transactions		(167,058)	24,090
Surplus for the period		**288,049,039**	**126,425,008**

Statement of Changes in Net Assets

	Capitalisation reserve	Housing development fund	Revaluation reserve	Mark-to-market reserve	Self insurance reserve	COID reserve	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R	R	R	R	R
Opening balance as previously reported	382,691,159	33,071,514	587,850,107	6,265	73,259,404	12,856,623	707,043,913	1,078,883,920	2,168,618,992
Adjustments									
Prior year adjustments	-	-	-	-	-	-	-	9,039,558	9,039,558
Balance at 01 July 2008 as restated	**382,691,159**	**33,071,514**	**587,850,107**	**6,265**	**73,259,404**	**12,856,623**	**707,043,913**	**1,087,923,478**	**2,177,658,550**
Changes in net assets									
Surplus for the period	-	-	-	-	-	-	-	126,425,008	126,425,008
Asset revaluation	-	-	(3,828,070)	-	-	-	(3,828,070)	-	(3,828,070)
Contributions to insurance reserve	-	-	-	-	1,762,598	2,082,464	3,845,062	(3,845,062)	-
Transfer from Housing fund	-	(11,695,450)	-	-	-	-	(11,695,450)	11,695,450	-
Unbundling of reserves	(382,691,159)	-	-	-	-	-	-	388,659,156	5,967,997
Insurance claims processed	-	-	-	-	(1,889,188)	(1,284,582)	(3,173,770)	3,173,771	-
Fair value loss	-	-	-	(105)	-	-	(105)	-	(105)
Total changes	(382,691,159)	(11,695,450)	(3,828,070)	(105)	(126,590)	797,882	(14,852,333)	526,108,323	128,564,831
Balance at 01 July 2009	**-**	**21,376,064**	**584,022,037**	**6,160**	**73,132,814**	**13,654,505**	**692,191,580**	**1,614,031,801**	**2,306,223,381**
Changes in net assets									
Surplus for the period	-	-	-	-	-	-	-	288,049,039	288,049,039
Contributions to insurance reserve	-	-	-	-	2,297,910	2,346,900	4,644,810	(4,644,810)	-
Insurance claims processed	-	-	-	-	(824,014)	(1,688,128)	(2,512,142)	2,626,426	114,284
Transfers	-	(10,173,116)	-	-	-	-	(10,173,116)	10,173,116	-
Fair value gain	-	-	-	1,672	-	-	1,672	-	1,672
Total changes	-	(10,173,116)	-	1,672	1,473,896	658,772	(8,038,776)	296,203,771	288,164,995
Balance at 30 June 2010	**-**	**11,202,948**	**584,022,037**	**7,832**	**74,606,710**	**14,313,277**	**684,152,804**	**1,910,235,572**	**2,594,388,376**

Cash Flow Statement

	Note(s)	2010 R	2009 R
Cash flows from operating activities			
Receipts			
Cash receipts from customers		780,943,399	498,517,984
Grants		801,341,637	921,661,367
Interest received		159,209,768	156,439,701
Other receipts		164,445,687	190,448,856
		1,905,940,491	1,767,067,908
Payments			
Employee costs		(685,326,234)	(599,492,939)
Suppliers		(366,508,956)	(282,168,865)
Finance cost		(3,086,772)	(11,581,825)
Cash paid to suppliers and employees		(376,016,241)	(341,047,324)
Inventories		-	(1,075,543)
		(1,430,938,203)	(1,235,366,496)
Net cash flows from operating activities	47	**475,002,288**	**531,701,412**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(601,678,601)	(478,637,572)
Proceeds from sale of property, plant and equipment	4	-	233,219
Purchase of other intangible assets	5	-	(78,110)
Movement in current investments		-	161,547
Increase in non-current receivables		(72,121,932)	(37,851,943)
Interest Income		11,143,530	-
Finance costs		(2,652,283)	-
Net cash flows from investing activities		**(665,309,286)**	**(516,172,859)**
Cash flows from financing activities			
Loans repaid		(2,357,172)	(1,541,687)
Net cash flows from financing activities		**(2,357,172)**	**(1,541,687)**
Net increase/(decrease) in cash and cash equivalents		**(192,664,170)**	**13,986,866**
Cash and cash equivalents at the beginning of the period		237,908,991	223,922,125
Cash and cash equivalents at the end of the period	14	**45,244,821**	**237,908,991**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

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

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

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

These accounting policies are consistent with the previous year's financial statements, unless explicitly stated otherwise.

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 are 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 and loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 basis, after removing individually impaired items, 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.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, amongst other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of and near-term business outlook for the investee, (including factors such as industry and sector performance),, changes in technology and operating and financing cash flow.

Allowance for slow moving, damaged and obsolete inventory

An allowance is made for slow moving, damaged and obsolete inventory to write inventory down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down, if any, is included in the statement of financial performance.

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 end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

1.1 Significant judgements and sources of estimation uncertainty (continued)

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 23 - Provisions.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Useful lives and residual values

The municipality re-assess the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of propery, plant and equipment management considers the condition and use the individual assets, to determine the remaining period over which the asset will be used.

Post employment benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

Effective interest rate and deferred payment terms

The municipality uses the prime rate adjusted for rates used by main suppliers or creditors to discount future cash flows.

1.2 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost on aquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost, if any, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

1.2 Property, plant and equipment (continued)

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.

Major spare parts and servicing equipment which are expected to be used for more than one period are included in property, plant and equipment. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement - Revaluation model (Land and Buildings)
Subsequent to initial recognition items of property, plant and equipment are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Land is not depreciated, except for landfill and quarry sites, as it is deemed to have an indefinite useful life.

Revaluations are performed every 5 years by registered valuators for every class separately.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Subsequent measurement - Cost model
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

Depreciation and impairment
Property, plant and equipment are depreciated on the straight-line basis over their estimated useful lives of the assets.

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Depreciation commences when the asset is ready for its intended use. The annual depreciation rates are based on the following estimated average asset lives:

• Roads and storm water	15-30
• Housing	30
• Water and sewerage	15-20
• Buildings	30
• Recreational facilities	20-30
• Security	3-5
• Buildings	30
• Specialised vehicles	10-15
• Other vehicles	5-7
• Office equipment	3-5
• Furniture and fittings	7-10
• Specialised plant and equipment	10-15
• Other items of plant and equipment	3-5
• Landfill sites	15
• Quarries	20-30

The residual value, useful life and depreciation method of each asset are reviewed annually. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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 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 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.

1.3 Site restoration and dismantling cost

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

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

1.4 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

1.4 Intangible assets (continued)

Subsequent to initial recognition intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values. Amortisation commences when the asset is ready for its intended use. The annual amortisation rates are based on the following estimated average asset lives:

Item	Useful life
Computer software	3 years

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

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

1.5 Investments

Investments are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments. Regular way purchases and sales of financial assets are accounted for at trade date.

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

Financial instruments are measured initially at fair value, except for investments in residual interests 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.

1.6 Financial instruments (continued)

Regular way purchases of financial assets are accounted for at trade date.

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 exclude 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
Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses. Amortised cost refers to the initial carrying amount, plus interest and less repayments.

Loans to employees
After initial recognition these loans are measured at amortised cost, using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Trade and other receivables
After initial recognition these receivables are measured at amortised cost, using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest rate method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes investments in residual interests for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Fair value determination

Fair value information for trade and other receivables is determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value, because its fair value cannot be reliably measured, or on a derivative asset that is linked to and is settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset to the financial asset that is impaired. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative deficit that had been recognised directly in net assets shall be removed and recognised in surplus or deficit even though the financial asset has not been derecognised.

The amount of the cumulative deficit that is removed from equity and recognised in surplus or deficit are the difference

1.6 Financial instruments (continued)

between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit.

The recoverable amounts of cash-generating units and recoverable service amounts of non-cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

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

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

Impairment losses are recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the financial 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 either directly or through use of an allowance account.

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

Available-for-sale financial assets

These financial assets are non-derivatives that are either designated in this category or not classified elsewhere.

Assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned.

Available-for-sale financial assets are initially and subsequently measured at fair value. Gains and losses arising from changes in fair value of an available-for-sale financial asset are recognised in net assets until the asset is disposed of or determined to be impaired.

Interest on available-for-sale financial assets calculated using the effective interest rate method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale residual interests are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in net assets. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in net assets.

The municipality assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 net assets as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses recognised in surplus or deficit for investments in residual interests classified as available-for-sale are not subsequently reversed through surplus or deficit. Impairment losses recognised in surplus or deficit for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Equity investments for which a fair value is not determinable are held at cost. Impairments on such investments are not reversed.

1.6 Financial instruments (continued)

Trade and other receivables

Trade receivables are measured at initial recognition at fair value plus direct transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. 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.

An impairment of trade receivables is accounted for by reducing the carrying amount of the asset through the use of an allowance account, and the amount of the loss 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.

Trade and other payables are classified as financial liabilities carried at amortised cost.

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 measured at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings

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

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

Bank overdrafts are classified as financial liabilities carried at amortised cost.

Held to maturity

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

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

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 an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative

1.6 Financial instruments (continued)

gain or loss previously recognised in net assets is recognised in surplus or deficit; and

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

Derecognition

Financial assets

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

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

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

Financial liabilities

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

1.7 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 at the commencement of the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at

1.7 Leases (continued)
inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using the standard of GRAP on Leases.

Operating leases - lessor

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts is recognised as an expense and the contractual payments are recognised as either a pre-paid expense asset or liability depending on whether the payment exceeds the expense or vice versa.

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

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

Contingent rentals received / receivable are recognised as revenue in the period when they become due and are not included in the straight-line lease revenue.

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 is recognised as an expense and the contractual payments are recognised as either a pre-paid expense asset or liability depending on whether the payment exceeds the expense or vice versa.

1.8 Inventories

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

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

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

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.9 Impairment of cash-generating assets

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

1.9 Impairment of cash-generating assets (continued)

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

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

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

1.9 Impairment of cash-generating assets (continued)

for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Cash-generating units

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 municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in an arm's length transaction in estimating on:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

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

1.9 Impairment of cash-generating assets (continued)

of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.10 Impairment of non-cash-generating assets

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

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting

1.10 Impairment of non-cash-generating assets (continued)
any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a similar asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The

1.10 Impairment of non-cash-generating assets (continued)
present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.11 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.

1.11 Employee benefits (continued)

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 end of the reporting period where the interim valuation is performed at an earlier date.

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

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

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

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

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

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

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the

1.12 Provisions and contingencies (continued)

reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

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

1.13 Revenue from exchange transactions (continued)

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

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

Measurement

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without

1.14 Revenue from non-exchange transactions (continued)
directly giving approximately equal value in exchange.

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

Measurement

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

Rates, including collection charges and penalties interest

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.

Collection charges are recognised once the period legally prescribed for the levying of the charge has elapsed. Legal fees actually incurred in recovering non-payment of rates are recognised as an expense and not offset against revenue from collection charges.

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

Fines

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

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.

1.14 Revenue from non-exchange transactions (continued)

Government grants

Government grants 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.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other 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.

Grants funded by public contributions are only recognised when it is probable that economic benefits or service potential associated with the transaction will flow to the municipality. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

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.

1.15 Investment income

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

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

1.16 Borrowing costs (continued)

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.

1.17 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition, in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.18 Comparative figures

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

1.19 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.

1.20 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.

1.21 Irregular expenditure

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

1.22 Presentation 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 GRAP.

1.24 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included as Annexure E to the annual financial statements.

Comparative information is not required.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality. We regard all individuals from the level of Municipal Manager and Council Members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the municipality.

	2010 R	2009 R

2. Changes in accounting policy

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

- IGrap 1

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

There is no impact on the annual financial statements, because the municipality applied the IGRAP 1 principles in the past.

3. New standards and interpretations

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 effect on initial adoption of Standard on GRAP 9.

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

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

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

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; and
- the actual amounts on a comparable basis.

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;

3. New standards and interpretations (continued)

- 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 of the standard is still to be determined by the Minister of Finance.

The municipality has early adopted the standard for the first time in the period in which it becomes effective.

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

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.

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

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

The impact of the standard is not material.

GRAP 14: Events after the reporting date

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

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

Two types of events can be identified:

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

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 April 2009.

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

The impact of the standard is not material.

3. New standards and interpretations (continued)

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.

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

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

The impact of the standard is not material.

GRAP 102: Intangible Assets

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

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

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

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

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

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

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

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

The impact of the standard is not material.

Notes to the Annual Financial Statements

	2010	2009
	R	R

4. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and buildings	1,619,052,156	(266,127,243)	1,352,924,913	1,415,495,305	(246,462,392)	1,169,032,913
Heritage assets	1,190,608	(1,190,608)	-	1,190,608	(1,190,608)	-
Infrastructure assets	2,338,643,051	(966,167,297)	1,372,475,754	2,031,583,760	(883,909,110)	1,147,674,650
Community assets	26,593,397	(11,125,843)	15,467,554	26,593,397	(10,226,057)	16,367,340
Other assets	438,511,982	(242,904,395)	195,607,587	348,711,922	(224,367,009)	124,344,913
Leased assets	7,500,376	(5,589,622)	1,910,754	9,532,028	(7,228,260)	2,303,768
Total	**4,431,491,570**	**(1,493,105,008)**	**2,938,386,562**	**3,833,107,020**	**(1,373,383,436)**	**2,459,723,584**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Under construction	Depreciation	Total
Land and buildings	1,176,689,053	1,808,270	201,748,581	(19,664,851)	1,352,924,913
Infrastructure assets	1,147,674,650	123,285,642	183,773,649	(82,258,187)	1,372,475,754
Community assets	16,367,340	-	-	(899,786)	15,467,554
Other assets	124,344,913	44,881,994	44,918,067	(18,537,386)	195,607,587
Leased assets	2,303,768	1,271,361	-	(1,664,375)	1,910,754
	2,467,379,724	**171,247,267**	**430,440,297**	**(123,024,585)**	**2,938,386,562**

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Under construction	Disposals	Revaluations	Depreciation	Total
Land and buildings	970,303,314	7,623,580	214,296,441	(11,994)	(3,828,070)	(19,350,358)	1,169,032,913
Infrastructure assets	998,164,130	57,219,119	169,702,140	-	-	(77,410,739)	1,147,674,650
Community assets	17,258,089	14,933	-	(5,456)	-	(900,226)	16,367,340
Other assets	114,966,671	12,333,437	16,603,382	(215,769)	-	(19,342,808)	124,344,913
Leased assets	3,561,318	844,540	-	-	-	(2,102,090)	2,303,768
	2,104,253,522	**78,035,609**	**400,601,963**	**(233,219)**	**(3,828,070)**	**(119,106,221)**	**2,459,723,584**

Assets subject to finance lease (Net carrying amount)

	2010	2009
Office equipment	1,347,197	1,879,331
Cellphones and 3G	557,306	424,435
	1,904,503	**2,303,766**

Refer to Appendix B and C for more detail on Property, plant and equipment.

Refer to note 48 for contractual committments for capital expenditure.

None of the entity's assets are pledged as security, except for finance leased assets.

The Property, Plant and Equipment has almost been written off in total, but has been taken up on the Asset Register of Mangaung and the provisional amounts not yet written off, are therefore included in the above Property, Plant and Equipment figures. The Property, Plant and Equipment fully written off, are still in use.

The cost of Property, Plant and Equipment of Thaba Nchu and Botshabelo, respectively, as reflected on their individual Balance Sheets at date of transfer was as follow:

Thaba Nchu Municipality R 40,935,100

4. Property, plant and equipment (continued)

Botshabelo Municipality R 109,206,357

5. Intangible assets

	2010			2009		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Computer software	17,428,471	(14,620,176)	2,808,295	17,428,471	(12,294,923)	5,133,548

Reconciliation of intangible assets - 2010

	Opening balance	Depreciation	Total
Computer software	5,133,548	(2,325,253)	2,808,295

Reconciliation of intangible assets - 2009

	Opening balance	Additions	Depreciation	Total
Computer software	7,568,815	78,110	(2,513,377)	5,133,548

6. Investments

Name of entity	Held by	2010	2009
Centlec (Pty) Ltd	Mangaung Local Municipality	100	100
OVK Holdings Ltd	Mangaung Local Municipality	10,367	8,695
		10,467	**8,795**
Council's Valuation			
Centlec		2,297,459,811	221,481,971
OVK Holdings Ltd		10,367	8,695
		2,297,470,178	**221,490,666**

Centlec (Pty) Ltd: The investment in the municipal entity, Centlec (Pty) Ltd is carried at cost.

The valuations are based on the following:
Centlec (Pty) Ltd: The investment in the municipal entity, Centlec (Pty) Ltd, is carried at net assets and liabilities value.
OVK Holdings Ltd: Valuation obtained from OVK Holdings Ltd - Quoted market value, these shares have been issued to the municipality with no initial cost.

Terms and conditions:
No terms and conditions that are attached to the investments were renegotiated during the year.

Credit quality of investments:
The credit quality of investments that are neither past due nor impaired can be accessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Investments pledged as security:
An investment of R10,318,261.29 is pledged as security to the Commissioner of the Workmen's Compensation Fund to guarantee the payment of claims in respect of injuries while on duty.

Notes to the Annual Financial Statements

7. Non-current receivables

	2010 R	2009 R
Loans and receivables		
Housing selling scheme loans	42,731,900	40,174,899
Erven loans	17,602,970	16,714,938
Motor vehicle loans	975,093	1,443,469
Study loans	49,599	61,509
Other loans to Centlec (Pty) Ltd	163,617,713	115,867,998
Shareholders loan to Centlec (Pty) Ltd	657,303,374	639,759,279
	882,280,649	814,022,092
Impairment - motor vehicle loans	(889,596)	(648,629)
Impairment - study loans	(49,599)	(59,599)
Impairment - erven loans	(8,334,174)	(6,280,082)
Impairment - housing selling scheme loans	(31,326,876)	(37,475,310)
	841,680,404	**769,558,472**
Non-current assets		
Loans and receivables	827,734,015	754,844,579
Current assets		
Loans and receivables	13,946,389	14,713,893
	841,680,404	**769,558,472**

Renegotiated terms of financial assets at fair value through surplus or deficit

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

Non-current receivables pledged as security

None of the non-current receivables was pledged as security for any financial liabilities.

Security held for any of the non-current receivables

No securities is held for any of the non-current receivables.

Reconciliation for impairment

	2010 R	2009 R
Impairment for motor vehicle loans		
Opening balance	648,629	747,310
Contribution to impairment	240,967	(98,681)
	889,596	**648,629**
Impairment for study loans		
Opening balance	59,599	62,503
Contribution to impairment	(10,000)	(2,904)
	49,599	**59,599**
Impairment for erven loans		
Opening balance	6,280,082	5,771,367
Contribution to impairment	2,054,092	508,715
	8,334,174	**6,280,082**
Impairment for housing selling scheme loans		
Opening balance	37,475,309	25,632,871
Contribution to impairment	(6,148,433)	11,842,438

	2010 R	2009 R
7. Non-current receivables (continued)		
	31,326,876	**37,475,309**

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 assumption was made that the credit quality of the short term portion of long term receivables would equate to the credit qality of the receivable's long term portion.

The credit quality of the short term portion of long term receivables was evaluated in terms of the risk group and ageing of the individual receivable account

Details of loans and receivables:

Shareholders loan to Centlec (Pty) Ltd
A shareholders loan account was established in accordance with the sale of business agreement for the purchase of the electricity service by Centlec. The capital amount outstanding bears interest at a rate of 5.17%. (2008): The capital amount outstanding beared interest from the effective date of 1 July 2005 by applying an interest rate on the loan account to achieve an agreed upon revenue for the municipality, based upon the past contribution to the Rate and General Services division.

Other loans to Centlec (Pty) Ltd
Loans are granted to Centlec for capital expenditure at an interest rate of 10% per annum and are repayable over the estimated life of the financed asset.

Motor vehicle loans
Permanent staff obtained loans at 8.50% interest per annum repayable over a period of 3 to 6 years. Other staff's loans bear interest of prime plus 1% and are also repayable over a period of 3 to 6 years. These loans are repaid on a monthly basis by way of salary deductions. These loans are being phased out and are completely repayable in the year 2010.

Study loans
Staff members qualified for interest free study loans under the approved study scheme of the municipality. These loans are repaid on a monthly basis by way of salary deductions. These loans are being phased out and no further loans are granted.

Erven loans
Loans were granted to the public for the sale of erven, repayable over a maximum period of 5 years at an interest rate of 1% above the bank rate of the municipality. These loans are repaid on a monthly basis. No further loans are granted.

Housing selling scheme loans
Housing loans were granted to qualifying individuals and public organisations in terms of the housing program. These loans attract interest of between 6% and 14% per annum and are repayable over 20 years. These loans are repaid on a monthly basis by way of salary deductions for officials and six monthly payments for public organisations.

	2010 R	2009 R

8. Financial liabilities by category

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

2010

	Loans and receivables	Total
Non-current borrowings	12,493,642	12,493,642
VAT payable	77,529,339	77,529,339
Finance lease liability	2,373,952	2,373,952
Payables from exhange transactions	685,669,476	685,669,476
Payables from non-exhange transactions	3,660,624	3,660,624
Consumer deposits	25,107,132	25,107,132
Unspent conditional grants	231,424,845	231,424,845
Non-current provisions	74,285,678	74,285,678
	1,112,544,688	**1,112,544,688**

2009

	Loans and receivables	Total
Non-current borrowings	14,278,700	14,278,700
VAT payable	55,870,624	55,870,624
Finance lease liability	2,946,066	2,946,066
Payables from non-exhange transactions	487,238,022	487,238,022
Payables from non-exhange transactions	3,251,757	3,251,757
Consumer deposits	23,889,773	23,889,773
Unspent conditional grants	416,585,976	416,585,976
Non-current provisions	69,859,875	69,859,875
	1,073,920,793	**1,073,920,793**

9. Retirement benefits

Defined benefit plan

The defined benefit plans disclosed below are represented by medical aid for retired employees and pension payments for both retired and current employees. The municipality pays 60% of the medical aid contributions of retired employees who were in the service of the Council on or before 1 October 1981, as well as a pension to retired employees based on certain criteria to be met, set out in the Municipality's Conditions of Service.

The Municipality obtained an actuarial valuation for the first time on the defined benefit plans as at 30 June 2009.

Analysis of defined benefit obligation

	2010 R	2009 R
Present value of the defined benefit obligation	2,693,000	2,421,000
Present value of unfunded obligations	348,224,000	294,700,000
	350,917,000	**297,121,000**

Movements in the present value of defined benefit obligation

	2010 R	2009 R
Opening balance	301,224,000	301,087,000
Current service costs	18,556,000	16,754,000
Benefits paid	(5,894,000)	(8,069,000)
Interest	29,709,000	31,933,000
Actuarial gains and losses recognised in surplus for the year	11,425,000	(44,584,000)
Net expense recognised in the statement of financial performance	59,690,000	4,103,000

	2010 R	2009 R

9. Retirement benefits (continued)

	414,710,000	**301,224,000**

Net expense recognised in the statement of financial performance

Current service cost - included under employee related cost	18,556,000	16,754,000
Interest cost - included under finance cost	29,709,000	31,933,000
Actuarial (gains) losses - included under other income	11,425,000	(44,584,000)
	59,690,000	**4,103,000**

Key assumptions used

Assumptions used on last valuation- 30 June 2010.

Discount rates used	9.50 %	9.50 %
Health care cost inflation	7.75 %	8.00 %
Inflation rate	5.80 %	6.00 %
Salary inflation	13.00 %	7.50 %
Pension increase allowance	5.75 %	6.00 %
Expected retirement age (in years)	55.00	55.00
Membership discontinued at retiremnet or death-in-service	10.00 %	10.00 %

Assumed healthcare cost trends have a significant effect on the amounts recognised in surplus for the year. The value of the liability could also be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

10. Inventories

Consumable stores - at cost	4,273,803	3,320,693
Water maintenance materials - at cost	4,825,580	952,150
Water in reservoirs - at cost	880,339	521,410
Water in pipes - at cost	286,708	336,941
Fuel - at cost	1,172,074	1,112,905
	11,438,504	**6,244,099**

10.1 Inventory recognised as an expense

Inventory - expense	5,355,570	1,076,939

11. Other receivables from exchange transactions

Deferred lease income	42,420,864	39,338,356
Interest on investments	303,687	435,572
Leave receivables	781,575	552,453
Outstanding health claims	1,537,952	1,537,952
Sundry receivables	64,877,294	67,253,311
Impairment of sundry receivables	(31,636,314)	(28,345,488)
	78,285,058	**80,772,156**

Trade and other receivables pledged as security

Trade and other receivables were not pledged as security.

Not any portion of other receivables from exhange transactions was pledged as security for any financial liabiliies.

Credit quality of trade and other receivables

Notes to the Annual Financial Statements

	2010 R	2009 R

11. Other receivables from exchange transactions (continued)

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.

The assumption was made that the credit quality of the short term portion of long term receivables would equate to the credit qality of the receivable's long term portion.

The credit quality of the short term portion of long term receivables was evaluated in terms of the risk group and ageing of the individual receivable account.

Trade receivables

No of the financial assets that are fully performing have been renegotiated in the last year.

Reconciliation of impairment of trade and other receivables

	2010 R	2009 R
Opening balance	28,181,972	20,809,490
Contributions to provision	3,454,342	7,372,482
	31,636,314	**28,181,972**

12. Other receivables from non-exchange transactions

	2010 R	2009 R
Conditional Grant	274,867	274,867
Insurance claims	120,935	40,391
	395,802	**315,258**

Other receivables from non-exchange transactions pledged as security

Other receivables from non-exchange transactions were not pledged as security.

Not any portion of other receivables from exhange transactions was pledged as security for any financial liabiliies.

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions 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.

The assumption was made that the credit quality of the short term portion of long term receivables would equate to the credit qality of the receivable's long term portion.

The credit quality of the short term portion of long term receivables was evaluated in terms of the risk group and ageing of the individual receivable account.

Other receivables from non-exchange transactions

No of the financial assets that are fully performing have been renegotiated in the last year.

13. Consumer receivables from exchange transactions

	2010 R	2009 R
Gross balances		
Rates, water and sewerage	901,532,606	799,663,151
Electricity	2,070,612	3,123,024
Housing rental	17,379,847	16,139,850
Less: Unallocated deposits	(11,767,060)	(14,954,820)
	909,216,005	**803,971,205**

	2010 R	2009 R
13. Consumer receivables from exchange transactions (continued)		
Less: Impairment		
Rates, water and sewerage	(752,527,903)	(670,623,699)
Housing	(17,087,951)	(15,747,235)
	(769,615,854)	**(686,370,934)**
Net balance		
Rates, water and sewerage	149,004,703	129,039,452
Electricity	2,070,612	3,123,024
Housing rentals	291,896	392,615
Other: Unallocated deposits	(11,767,060)	(14,954,820)
	139,600,151	**117,600,271**
Rates: ageing		
Current (0 -30 days)	25,189,041	23,954,287
31 - 60 days	11,516,104	12,990,450
61 - 90 days	9,885,187	11,423,351
90+ days	274,023,670	267,385,688
	320,614,002	**315,753,776**
Electricity: ageing		
90 + days	2,070,612	3,123,024
Water and sewerage: ageing		
Current (0 -30 days)	47,378,897	38,126,073
31 - 60 days	26,295,398	26,012,308
61 - 90 days	17,721,772	21,010,250
90 + days	489,522,537	398,760,744
	580,918,604	**483,909,375**
Housing rental: ageing		
Current (0 -30 days)	414,132	563,249
31 - 60 days	236,032	489,740
61 - 90 days	221,072	435,735
91 + days	16,508,611	14,651,126
	17,379,847	**16,139,850**

Summary of receivables by customer classification

	2010 R	2009 R
Residential		
Current (0 -30 days)	46,670,418	38,035,102
31 - 60 days	23,501,775	22,809,873
61 - 90 days	18,550,975	20,564,454
91 + days	618,776,250	527,414,925
	707,499,418	608,824,354
Less: Impairment	(653,253,099)	(532,570,359)
	54,246,319	**76,253,995**
Industrial/ commercial		
Current (0 -30 days)	22,014,496	20,224,232
31 - 60 days	11,381,651	9,343,120
61 - 90 days	7,059,434	7,725,628
91 + days	83,153,436	73,048,251

	2010 R	2009 R

13. Consumer receivables from exchange transactions (continued)

	123,609,017	110,341,231
Less: Impairment	(55,176,569)	(64,175,389)
	68,432,448	**46,165,842**

National and provincial government		
Current (0 -30 days)	3,859,581	5,063,991
31 - 60 days	2,925,624	7,478,878
61 - 90 days	1,995,407	4,578,936
91 + days	62,798,543	83,459,729
	71,579,155	100,581,534
Less: Impairment	(45,835,339)	(89,788,701)
	25,743,816	**10,792,833**

Total		
Current (0 -30 days)	72,544,495	63,323,325
31 - 60 days	37,809,050	39,631,871
61 - 90 days	27,605,816	32,869,018
91 + days	764,728,229	683,922,905
	902,687,590	819,747,119
Less: Impairment	(754,265,006)	(686,370,934)
Unallocated deposits	(11,767,060)	(14,954,820)
Electricity	2,944,627	(821,094)
	139,600,151	**117,600,271**

Less: Impairment		
91 + days	(769,615,854)	(686,370,934)

Reconciliation of impairment		
Balance at beginning of the year	(686,370,934)	(455,128,200)
Contributions to provision	(83,244,920)	(231,242,734)
	(769,615,854)	**(686,370,934)**

Consumer debtors pledged as security

Consumer debtors were not pledged as security.

Not any portion of consumer receivables was pledged as security for any financial liabiliies.

Credit quality of consumer receivables

The credit quality of consumer debtors 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.

The assumption was made that the credit quality of the short term portion of consumer receivables would equate to the credit qality of the receivable's long term portion.

The credit quality of the short term portion of consumer receivables was evaluated in terms of the risk group and ageing of the individual receivable account.

Trade receivables

No of the financial assets that are fully performing have been renegotiated in the last year.

	2010 R	2009 R

14. Cash and cash equivalents

Cash and cash equivalents consist of:

	2010 R	2009 R
Cash on hand	54,869	54,719
Positive bank balances	18,550,843	141,020,645
Held-to-maturity investments maturing within 1 - 3 months from reporting date	26,639,109	96,833,627
	45,244,821	**237,908,991**

Restriction on the use of cash and cash equivalents

The cash and cash equivalents held by the municipality may only be used in accordance with its mandate; as such no restrictions have been placed on the use of cash and cash equivalents for the operations of the municipality.

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).

Cash and cash equivalents pledged as collateral

	2010 R	2009 R
Total financial assets pledged as collateral	10,318,261	7,389,636

An investment of R10,318,261.29 is pledged as security to the Commissioner of the Workmen's Compensation Fund to guarantee the payment of claims in respect of injuries while on duty.

The municipality had the following bank accounts

Account number / description	Bank statement		Cash book	
	2010	2009	2010	2009
	R	R	R	R
Current account (primary bank account) ABSA 470000465	9,713,167	79,463,381	8,816,740	80,361,320
Current account (fresh produce market) ABSA 470001348	3,382,869	3,093,304	3,382,869	3,093,304
Current account (2010 FIFA world cup) ABSA 4067877886	5,311,349	57,566,021	5,311,349	57,566,021
Current account (direct deposits Banktel) ABSA 470001380	-	-	1,039,885	-
Total	**18,407,385**	**140,122,706**	**18,550,843**	**141,020,645**

15. Housing development fund

	2010 R	2009 R
Unappropriated surplus	21,376,064	21,376,064
Transfer	(10,173,116)	-
	11,202,948	**21,376,064**

The housing development fund is represented by the following assets and liabilities:		
Housing selling scheme loans (refer to note 7)	11,405,024	2,699,589
Housing rental receivables (refer to note 13)	291,896	392,615
Payables	-	(57,209)
	11,696,920	**3,034,995**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the

	2010 R	2009 R

15. Housing development fund (continued)

Housing Act, all proceeds from housing developments, which include net rental income and sales of houses, must be paid into the Housing Development Fund. Monies outstanding to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

16. Revaluation reserve

	2010 R	2009 R
Closing balance	584,022,037	584,022,037

The surplus arising from the revaluation of land is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

Any impairment loss of a revalued asset shall be treated as a revaluation decrease. To the extent that the impairment loss exceeds the revaluation surplus for the same asset, the impairment loss is recognised in surplus/(deficit).

17. Mark-to-market reserve

	2010 R	2009 R
Closing balance	6,160	6,160
Asset revaluation	1,672	-
	7,832	**6,160**

The surplus is due to the market value adjustment of financial assets classified as available-for-sale financial instruments (OVK Holding Ltd shares). On disposal, the net mark-to-market surplus is realised to the Statement of Financial Performance.

18. Self insurance reserve

	2010 R	2009 R
Closing balance	73,132,814	73,132,814
Contributions to insurance reserve	2,297,910	-
Insurance claims processed	(824,014)	-
	74,606,710	**73,132,814**

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims, which are not insured externally. The contribution to the fund is determined by the council's insurance broker and is transferred to the fund from the accumulated surplus/(deficit). Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus. The balance of the self-insurance fund should be invested.

19. COID reserve

	2010 R	2009 R
Closing balance	13,654,505	13,654,505
Contributions to insurance reserve	2,346,900	-
Insurance claims prcessed	(1,688,128)	-
	14,313,277	**13,654,505**

The municipality has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases (COID). In terms of the exemption from the Compensation Commissioner, the municipality has established a COID reserve to offset claims from employees. Amounts are transferred to the COID Reserve from the accumulated surplus based on the amounts as approved in the annual budget as well as additional amounts deemed necessary to ensure that the balance of the reserve is adequate to offset potential claims.

Claims are paid as determined by the Compensation Commissioner. Claims are settled by transferring a corresponding amount from the COID reserve to the accumulated surplus/(deficit).

	2010 R	2009 R

20. Non-current borrowings

Held at amortised cost		
DBSA Bloemfontein: Sewer - 8001/104	4,372,878	5,589,659
DBSA Bloemfontein: Water - 8001/104	5,799,214	6,558,693
DBSA Thaba Nchu: 1864/202	345,290	345,290
	10,517,382	**12,493,642**

All the loans are from The Development Bank of South Africa and repayments are made on a six monthly basis. The last loan will be redeemed at 31 December 2015 and the loans bear interest between 10% and 14%.

Refer to Appendix A for more detail on long-term borrowings.

The entity did not default on any of the non-current borrowings whether it be on the capital or the interest portions.

Not any of the terms attached to the non-current borrowings were renegotiated.t

Non-current liabilities		
At amortised cost	10,517,382	12,493,642
Current liabilities		
At amortised cost	1,976,260	1,785,058
	12,493,642	**14,278,700**

21. Finance lease liability

Minimum lease payments due		
Payable within 1 year	1,896,184	1,857,151
Payable within 1 - 5 years	773,496	1,391,763
	2,669,680	3,248,914
Less: Future finance charges	(269,294)	(326,318)
Present value of minimum lease payments	**2,400,386**	**2,922,596**

Present value of minimum lease payments due		
Payable within 1 year	1,729,914	1,611,141
Payable within 1 - 5 years	670,473	1,311,455
	2,400,387	**2,922,596**
Non-current liabilities	670,473	1,311,455
Current liabilities	1,729,914	1,611,141
	2,400,387	**2,922,596**

The council leases various equipment under finance leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. The maximum lease term is 5 years and the average borrowing rate is between 9% and 15%. Some leases have fixed repayment terms and other escalate on average by 10% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

The entity has not default on any of the finance lease obligation, whether it be on the capital or the interest portion.

None of the terms attached to the finance lease obligations were renegotiated.

Notes to the Annual Financial Statements

	2010 R	2009 R

22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

2010 Soccer DBSA	-	2,000,000
2010 Stadia Development Grant	-	34,410,832
2010 Stadia Provincial Grant	16,622,725	20,285,503
2010 World Cup Host City Operating Grant	19,000,000	50,096,750
COGTA Grant Fire Suppression	82,817	-
DBSA Grant Capacity Building Programme	234,104	234,104
Financial Management Grant	61,718	370,629
Housing Grant: Municipal Accreditation funding	3,422,331	3,524,578
Local Government and Housing Grant	1,215,190	9,163,022
Local Government and Housing Infrastructure Grant	3,965,043	19,705,218
Motheo Contribution Environmental Health	13,786,458	10,141,311
Municipal Infrastructure Grant	38,703,738	18,305,870
Municipal Systems Improvement grant	685,145	765,366
Provincial Grant Hlasela Project - Batho Car Wash	150,000	-
Provincial Grant Hlasela Project - Boikemesetso Coop Farming	100,000	-
Provincial Grant Hlasela Project - Iphahamilseng Centre	3,703	-
Provincial Grant Hlasela Project - Lehlohonolo Music Group	7,200	-
Provincial Grant Land Use Scheme	748,686	1,395,045
Provincial Grant Planning and Surveying	574,210	754,763
Provincial Grant Township Establishment Caleb Motshabi	1,343,791	-
Provincial Grant- Du Plessis/Muller Intersection	578,732	-
Provincial Grant: Upgrade Housing Batho	2,083,399	-
Provincial Transfer Grassland	4,500,000	4,500,000
Provincial Treasury - Thaba Nchu Station Site Project	(153,028)	-
Provincial grant CCTV	130,851	-
Public Transport Infrastructure and System Fund Grant	121,120,549	229,233,853
Restructuring Grant	123,685	1,918,768
Urban Renewal grant	568,879	377,500
Water Services Operating and Transfer Subsidy (DWAF)	2,025,822	9,402,864
	231,685,748	**416,585,976**

See note 32 for reconciliation of grants from other spheres of government. The amounts will be recognised as revenue when the qualifying expenditure is incurred.

No grants were withheld due to unfilled conditions.

Notes to the Annual Financial Statements

	2010 R	2009 R

23. Non-current provisions

Reconciliation of non-current provisions - 2010

	Opening Balance	Expenditure incurred	Discounting	Total
Provision for rehabilitation of landfill sites	65,688,464	3,941,308	-	69,629,772
Provision for the rehabilitation of quarry sites	4,171,411	348,330	136,165	4,655,906
	69,859,875	**4,289,638**	**136,165**	**74,285,678**

Reconciliation of non-current provisions - 2009

	Opening Balance	Expenditure	Discounting	Total
Provision for rehabilitation of landfill sites	60,794,506	-	4,893,958	65,688,464
Provision for the rehabilitation of quarry sites	3,664,859	377,852	128,700	4,171,411
	64,459,365	**377,852**	**5,022,658**	**69,859,875**

Provision for rehabilitation of landfill sites:

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, 28 of 2002. The provision was determined by an independent expert and approximates the discounted expected future cash flows using reasonable estimation techniques.

Landfills consist of:
Botshabelo landfill site
Bloemfontein Nothern landfill site
Bloemfontein Southern landfill site
Thaba Nchu landfill site

Provision for rehabilitation of quarry sites:

In terms of the Mineral and Petroleum Resources Development Act, 28 of 2002, it is required from the municipality to execute the environmental management program to restore the Petra Quarry site after its useful life. Provision has been made for this cost based on the present value of future cash flows arising from the rehabilitation cost expected as at 31 May 2016. Discount rates used for the present value calculation was based on inflation and amounts to 10%.

The provision was determined by an independent expert and approximates the discounted expected future cash flows using reasonable estimation techniques. These quarries include:
Cecilia Quarry
Sunnyside Quarry
Thaba Nchu Quarries
Botshabelo Quarries

Rehabilitation:

Landfill sites
Daily rehabilitation is done at each landfill site. The final restoration of landfill sites are expected to be over a period of 15 years, being the estimated useful lives of landfill sites. No uncertainties were listed in the engineer's report.

Quarries
Rehabilitation has already started at the Petra Quarry.
No uncertainties were used in the calculation of the rehabilitation cost.
The rehabilitation of quarries is expected to be over a period of 20-30 years, being the estimated useful lives of the quarries.

	2010 R	2009 R

23. Non-current provisions (continued)

The calculation of rehabilitation of quarries is based on the estimated use per annum plus the total area to be rehabilitated from the previous year, multiplied with the estimated restoration cost per unit and increased annually by using an appropriate discounting factor. The calculation is cumulative and thus equates to the present value of restoration costs as at 30 June.

Engineers were appointed during 2008/09 to provide a detailed report of closure costs for the sites as at 30 June 2009. The estimated closure costs were also provided for previous financial years. The costs as per the engineer's report is therefore adjusted annually in terms of the National Treasury's growth parameters. A 6% increase for 2010 was applied.

24. Payables from exchange transactions

	2010	2009
Deferred interest	6,583,496	6,152,351
Deferred lease expenditure	150,263	134,317
Inter-company loan from Centlec (Pty) Ltd	291,733,897	189,652,864
Other payables	3,285,388	538,975
Payments received in advanced	83,591,915	94,314,197
Retentions	31,635,895	29,731,237
Staff bonuses	14,416,172	12,709,526
Staff leave	47,219,380	36,040,293
Trade payables	197,769,806	117,964,262
	676,386,212	**487,238,022**

The municipality defaulted on the payment of suppliers within 30 days. The average term of payment of suppliers for the current year was 40 days (2009 - 40 days).

The terms were not renegotiated before the financial statements were authorised for issue.

25. Payables from non-exchange transactions

	2010	2009
Deposits	441,127	400,779
Other payables	3,219,497	2,850,978
	3,660,624	**3,251,757**

The municipality defaulted on the payment of suppliers within 30 days. The average term of payment of suppliers for the current year was 40 days (2009 - 40 days).

The terms were not renegotiated before the financial statements were authorised for issue.

26. VAT payable

	2010	2009
VAT payable	86,551,700	55,870,624

The municipality is registered on the cash basis for VAT purposes. This means that VAT is only declared once cash is received or actual payments are made.

27. Consumer deposits

	2010	2009
Water	24,164,502	22,668,765
Interest paid	942,630	1,221,008
	25,107,132	**23,889,773**

Included in deposits is an accrual of interest at an effective interest rate of 4% per annum, which is paid to consumers when deposits are refunded.

	2010 R	2009 R

27. Consumer deposits (continued)

Guarantees in Lieu of water deposits	5,926,084	5,735,215

28. Financial assets by category

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

2010

	Available for sale	Loans and receivables	Total
Cash and cash equivalents	-	45,244,821	45,244,821
Consumer receivables from exchange transactions	-	151,367,211	151,367,211
Current portion of non - current receivables	-	13,946,389	13,946,389
Other receivables from exchange transactions	-	78,285,058	78,285,058
Other receivables from non-exchange transactions	-	395,802	395,802
Non - current receivables	-	827,734,015	827,734,015
Investments	10,467	-	10,467
	10,467	**1,116,973,296**	**1,116,983,763**

2009

	Available for sale	Loans and receivables	Total
Cash and cash equivalents	-	237,908,991	237,908,991
Consumer receivables from exchange transactions	-	117,600,271	117,600,271
Current portion of non-current receivables	-	14,713,893	14,713,893
Other receivables from exchange transactions	-	80,772,156	80,772,156
Other receivables from non-exchange transactions	-	315,258	315,258
Investments	8,975	-	8,975
	8,975	**451,310,569**	**451,319,544**

29. Revenue

	2010	2009
Fines	1,385,004	4,733,684
Government grants & subsidies	853,818,002	722,291,389
Income from agency services	107,165,586	90,528,323
Licences and permits	199,304	237,948
Property rates	342,459,519	278,659,802
Rental of facilities & equipment	18,678,273	18,903,447
Service charges	429,965,706	389,848,564
	1,753,671,394	**1,505,203,157**

The amount included in revenue arising from exchange transactions are as follows:

	2010	2009
Service charges	429,965,706	389,848,564
Rental of facilities & equipment	18,678,273	18,903,447
Income from agency services	107,165,586	90,528,323
Licences and permits	199,304	237,948
	556,008,869	**499,518,282**

The amount included in revenue arising from non-exchange transactions is as follows:

	2010	2009
Property rates	342,459,519	278,659,802
Fines	1,385,004	4,733,684
Government grants & subsidies	853,818,002	722,291,389

Notes to the Annual Financial Statements

	2010 R	2009 R
29. Revenue (continued)		
	1,197,662,525	**1,005,684,875**

30. Property rates

Rates received

	2010 R	2009 R
Municipal	-	1,609,031
Residential and commercial	308,762,787	254,742,894
State	36,795,651	25,479,406
Less: Fair value adjustment	(3,098,919)	(3,171,529)
	342,459,519	**278,659,802**

Valuations

	R'000	R'000
Residential	28,615,617	10,373,913
Commercial	7,841,067	5,001,020
State	3,190,648	1,534,313
Municipal	2,185,894	1,209,466
	41,833,226	**18,118,712**

2009:
Valuations on land and buildings are performed at least every five years. The last valuation came into effect on 1 July 2003 and the following valuation will come into effect on 1 July 2009. The basic rates of R0.0912 on the value of land and R0.008238 on the value of improvements are applied to determine assessment rates. A rebate of 40% is granted to owners whose properties are used solely for residential purposes, including properties which are zoned for the purpose of town houses and flats, as well as smallholdings and farms used solely for residential and agricultural purposes. A rebate of 20% is applied on residential properties from which an informal business is operated. A rebate of 100% is granted in the Bloemdustria industrial area.

2010:
From 1 July 2009 the basic rates was adjusted as follows:
- R0,034 on the value of rateable farm property,
- R0,5651 on the value of rateable residential property
- R1,3128 on the value of rateable government property
- R2,8255 on the value of rateable business property
- A rebate of 40% is granted to owners whose properties are used solely for residential purposes, including properties which are zoned for the purpose of town houses and flats, as well as smallholdings and farms used solely for residential and agricultural purposes.

31. Service charges

	2010 R	2009 R
Sale of water	303,538,489	285,486,153
Sewerage and sanitation charges	127,253,044	106,554,681
Refuse removal	4,593,428	4,046,120
Less: Fair value adjustment	(5,419,255)	(6,238,390)
	429,965,706	**389,848,564**

Notes to the Annual Financial Statements

	2010 R	2009 R

32. Government grants and subsidies

2010 Soccer DBSA	2,000,000	-
2010 Stadia Development Grant	36,390,066	107,192,347
2010 Stadia Provincial Grant	3,662,778	44,193,822
2010 World Cup Host City Operating Grant	50,096,750	4,703,250
COGTA Grant Fire Suppression	2,177,844	-
DPLG Grant Sustainable Human Settlement	-	274,867
Electricity Demand Side Management Grant	4,000,000	-
Equitable Share	394,636,828	305,797,405
Finance Management Grant	1,058,911	2,235,348
Housing Grant: Municipal Accreditation Subsidy	102,247	830,407
Local Government and Housing Grant	7,947,832	133,778
Local Government and Housing Infrastructure Grant	15,740,175	10,362,140
Motheo Contribution Environmental Health	2,854,853	636,669
Municipal Infrastructure Grant	56,476,133	101,030,013
Municipal Systems Improvement Grant	580,221	589,285
National Electrification Program	1,227,000	63,196,600
Provincial Grant - Du Plessis /Muller Intersection	2,421,268	-
Provincial Grant CCTV For BFN CBD Stadium Navil Hill	19,914,149	-
Provincial Grant Hlasela Project - Boikemesetso Coop Farming	200,000	-
Provincial Grant Hlasela Project - Mystic Beauty Saloon	200,000	-
Provincial Grant Hlasela Project - Iphahamilseng Centre	140,297	-
Provincial Grant Land Use Scheme	646,359	204,955
Provincial Grant Planning and Surveying	180,553	66,337
Provincial Grant Township Establishment Caleb Mots	656,209	-
Provincial Grant Upgrading Housing Batho	5,916,601	-
Provincial Grant Upgrading Roads in Batho	30,000,000	-
Provincial Health Subsidies	-	3,361,470
Provincial Treasury - Thaba Nchu Station Site Project	153,028	-
Public Transport Infrastructure and Systems Grant	205,281,304	71,413,664
Restructuring Grant	1,795,083	5,968,212
Urban Renewal Grant	(15,529)	-
Water Services Operating and Transfer Subsidy (DWAF)	7,377,042	100,820
	853,818,002	**722,291,389**

2010 Soccer DBSA

Balance unspent at beginning of year	2,000,000	2,000,000
Conditions met - transferred to revenue	(2,000,000)	-
Closing balance	**-**	**2,000,000**

Conditions still to be met - transfer to liabilities (see note 22)

Grant for the expenditure of the 2010 Soccer World Cup.

2010 Stadia Development Grant

Balance unspent at beginning of year	34,410,832	68,179,978
Current - year receipts	1,979,234	73,423,200
Conditions met - transferred to revenue	(36,390,066)	(107,192,346)
Closing balance	**-**	**34,410,832**

Conditions still to be met - transfer to liabilities (see note 22)

The grant is allocated to the municipality for the development and improvement of the sport stadium for the 2010 Soccer World Cup.

	2010 R	2009 R

32. Government grants and subsidies (continued)

2010 Stadia Provincial Grant

Balance unspent at beginning of year	20,285,503	-
Current - year receipts	-	64,479,325
Conditions met - transferred to revenue	(3,662,778)	(44,193,822)
Closing balance	**16,622,725**	**20,285,503**

Conditions still to be met - transfered to liabilities (see note 22)

The grant is allocated to the municipality for the development and improvement of the sport stadium for the 2010 Soccer World Cup.

2010 World Cup Host City Operating Grant

Balance unspent at beginning of year	50,096,750	-
Current - year receipts	19,000,000	54,800,000
Conditions met - transferred to revenue	(50,096,750)	(4,703,250)
Closing balance	**19,000,000**	**50,096,750**

Conditions still to be met - transferred to liabilities (see note 22)

To grant was allocated to the municipality to assist host cities with the operational response associated with the hosting of the 2009 FIFA Confederations Cup and the 2010 FIFA World Cup.

COGTA Grant Fire Suppression

Current - year receipts	2,260,660	-
Conditions met - transferred to revenue	(2,177,843)	-
Closing balance	**82,817**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

To capacitate the fire and rescue division in order to deal with the 2010 soccer events.

DBSA Grant Capacity Building Programme

Balance unspent at beginning of year	234,104	234,104

Conditions still to be met - transfered to liabilities (see note 22)

The grant was allocated to the municipality to assist with capacity building.

DPLG Grant Sustainable Human Settlement

Balance due to the municipality at the beginning of year	274,867	274,867

Conditions still to be met - transferred to liabilities (see note 22)

Grant for the financial assistance for the planning and surveying of erven, geo-technical reports and relevant reports.

Electricity Demand Side Management Grant

Current - year receipts	4,000,000	-
Conditions met - transferred to revenue	(4,000,000)	-

	2010 R	2009 R
32. Government grants and subsidies (continued)		
Closing balance	-	-

Conditions still to be met - transfer to liabilities (see note 22)

To implement the Electricity Demand Side Management (EDSM) programme by providing capital subsidies to licensed distributors to address EDSM in residential dwellings, communities and municipal buildings in order to mitigate the risk of load shedding and supply interruptions.

Equitable Share

Current - year receipts	394,636,828	305,797,405
Conditions met - transferred to revenue	(394,636,828)	(305,797,405)
Closing balance	-	-

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

Financial Management Grant

Balance unspent at beginning of year	370,629	2,105,977
Current - year receipts	750,000	500,000
Conditions met - transferred to revenue	(1,058,911)	(2,235,348)
Closing balance	**61,718**	**370,629**

Conditions still to be met - transferred to liabilities (see note 22)

The purpose of the grant is to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act (MFMA).

Housing Grant: Municipal Accreditation Funding

Balance unspent at beginning of year	3,524,578	1,854,985
Current - year receipts	-	2,500,000
Conditions met - transferred to revenue	(102,247)	(830,407)
Closing balance	**3,422,331**	**3,524,578**

Conditions still to be met - transferred to liabilities (see note 22)

The grant is allocated to the municipality to finance and support the municipal accreditation project as well as capacity development.

Local Government and Housing Grant

Balance unspent at beginning of year	9,163,022	9,296,800
Conditions met - transferred to revenue	(7,947,832)	(133,778)
Closing balance	**1,215,190**	**9,163,022**

Conditions still to be met - transferred to liabilities (see note 22)

Upgrading of White City Hostels.

Local Government and Housing Infrastructure Grant

Balance unspent at beginning of year	19,705,218	30,067,358
Conditions met - transferred to revenue	(15,740,175)	(10,362,140)

Notes to the Annual Financial Statements

	2010 R	2009 R

32. Government grants and subsidies (continued)

Closing balance	**3,965,043**	**19,705,218**

Conditions still to be met - transferred to liabilities (see note 22)

Grant for infrastructure for housing projects for the Grassland area.

Motheo Contribution Environmental Health

Balance unspent at beginning of year	10,141,311	3,777,980
Current - year receipts	6,500,000	7,000,000
Conditions met - transferred to revenue	(2,854,853)	(636,669)
Closing balance	**13,786,458**	**10,141,311**

Conditions still to be met - transferred to liabilities (see note 22)

Grant for the rendering of environmental health services.

Municipal Infrastructure Grant

Balance unspent at beginning of year	18,305,870	16,401,883
Current - year receipts	76,874,000	102,934,000
Conditions met - transferred to revenue	(56,476,132)	(101,030,013)
Closing balance	**38,703,738**	**18,305,870**

Conditions still to be met - transferred to liabilities (see note 22)

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

Municipal Systems Improvement Grant

Balance unspent at beginning of year	765,366	954,651
Current - year receipts	500,000	400,000
Conditions met - transferred to revenue	(580,221)	(589,285)
Closing balance	**685,145**	**765,366**

Conditions still to be met - transferred to liabilities (see note 22).

The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government: Municipal Systems Act 32 of 2000.

National Electrification Program Grant

Current - year receipts	1,227,000	63,196,600
Conditions met - transferred to Centlec	(1,227,000)	(63,196,600)
Closing balance	**-**	**-**

The grant is used to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure. The grant is transferred to Centlec (Pty) Ltd.

Provincial Grant - Du Plessis /Muller Intersection

Current - year receipts	3,000,000	-

Notes to the Annual Financial Statements

	2010 R	2009 R

32. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(2,421,268)	-
Closing balance	**578,732**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

The purposes of the grant is to assist the Municipality with the Du Plessis/Muller intersection infrastructure project as part of the widening of Nelson Mandela Drive.

Provincial Grant CCTV For BFN CBD Stadium Navil Hill

Current - year receipts	20,045,000	-
Conditions met - transferred to revenue	(19,914,149)	-
Closing balance	**130,851**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

Grant for CCTV cameras at the Bloemfontein CDB Stadium in Navil Hill.

Provincial Health Subsidies

Current - year receipts	-	3,361,470
Conditions met - transferred to revenue	-	(3,361,470)
Closing balance	**-**	**-**

The municipality renders health services on behalf of the Provincial Government and is refunded approximately 60% of total expenditure incurred. The grant is used mainly to fund primary health care services.

Provincial Grant Hlasela Project - Batho Car Wash

Current - year receipts	150,000	-
Closing balance	**150,000**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

The purpose of this grant is to assist the municipality with the implementation of the Operation Hlasela project which is a car wash in Batho.

Provincial Grant Hlasela Project - Boikemesetso Coop Farming

Current - year receipts	200,000	-
Conditions met - transferred to revenue	(200,000)	-
Closing balance	**-**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

The purpose of this grant is to assist the municipality with the implementation of the Operation Hlasela project: A Cooperative farming in Boikemesetso.

Provincial Grant Hlasela Project - Lehlohonolo Music Group

Current - year receipts	7,200	-
Closing balance	**7,200**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

	2010 R	2009 R

32. Government grants and subsidies (continued)

The purpose of this grant is to assist the municipality with the implementation of the Operation Hlasela project: the Lehlohonolo Music Group.

Provincial Grant Hlasela Project -Iphahamilseng Centre

	2010 R	2009 R
Current - year receipts	144,000	-
Conditions met - transferred to revenue	(140,297)	-
Closing balance	**3,703**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

The purpose of this grant is to assist the municipality with the implementation of the Operation Hlasela project for swings, computer internet service and adopting the Iphahamiseng Centre for Vulnerable Children.

Provincial Grant Hlasela Project - Mystic Beauty Saloon

	2010 R	2009 R
Current - year receipts	200,000	-
Conditions met - transferred to revenue	(200,000)	-
Closing balance	**-**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

The purpose of this grant is to assist the municipality with the implementation of the Operation Hlasela project: A Mystic Beauty Saloon.

Provincial Grant Hlasela Project - Re Ba Ikemetseng Bomme

	2010 R	2009 R
Current - year receipts	100,000	-
Closing balance	**100,000**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

The purpose of this grant is to assist the municipality with the implementation of the Operation Hlasela project: Re Ba Ikemetseng Bomme (Sewing project).

Provicial Grant Land Use Scheme

	2010 R	2009 R
Balance unspent at beginning of year	1,395,045	1,600,000
Conditions met - transferred to revenue	(646,359)	(204,955)
Closing balance	**748,686**	**1,395,045**

Conditions still to be met - transferred to liabilities (see note 22)

To assist the municipality with the compilation of a Town Planning scheme to manage land development.

Provincial Grant Planning and Surveying

	2010 R	2009 R
Balance unspent at beginning of year	754,763	821,100
Conditions met - transferred to revenue	(180,553)	(66,337)
Closing balance	**574,210**	**754,763**

Conditions still to be met - transferred to liabilities (see note 22).

To assist the municipality with the compilation of a Town Planning scheme to manage land development.

32. Government grants and subsidies (continued)

Provincial Grant Township Establishment Caleb Motshabi

Current - year receipts	2,000,000	-
Conditions met - transferred to revenue	(656,209)	-
Closing balance	**1,343,791**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

To assist the municipality with the upbringing of the township establishment Caleb Motshabi.

Provincial Grant Upgrading Housing Batho

Current - year receipts	8,000,000	-
Conditions met - transferred to revenue	(5,916,601)	-
Closing balance	**2,083,399**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

To assist the municipality with the Hlasela project: the upgrading of Housing in the Batho area.

Provincial Grant Upgrading Roads in Batho

Current - year receipts	30,000,000	-
Conditions met - transferred to revenue	(30,000,000)	-
Closing balance	**-**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

To assist the municipality with the Hlasela project: the upgrading of roads in the Batho area.

Provincial Transfer Grasslands

Balance unspent at beginning of year	4,500,000	4,500,000

Conditions still to be met - transferred to liabilities (see note 22)

To be used for installation of storm water drainage and regravelling of roads. Planning and surveying in respect of Phase 3 of the Grasslands area.

Provincial Treasury - Thaba Nchu Station Site Project

Current - year receipts	153,028	-
Conditions met - transferred to revenue	(153,028)	-
Closing balance	**-**	**-**

Conditions still to be met - transfer to liabilities (see note 22)

Grant for infrastructure for PHP housing projects in Thaba Nchu.

Public Transport Infrastructure and System Fund Grant

Balance unspent at beginning of year	229,233,853	58,030,517
Current - year receipts	97,168,000	242,617,000
Conditions met - transferred to revenue	(205,281,304)	(71,413,664)

	2010 R	2009 R
32. Government grants and subsidies (continued)		
Closing balance	**121,120,549**	**229,233,853**

Conditions still to be met - transferred to liabilities (see note 22)

The grant is allocated to the municipality to improve public transport infrastructure and systems, in accordance with agreed project plans.

Restructuring Grant

	2010 R	2009 R
Balance unspent at beginning of year	1,918,768	7,886,980
Conditions met - transferred to revenue	(1,795,083)	(5,968,212)
Closing balance	**123,685**	**1,918,768**

Conditions still to be met - transferred to liabilities (see note 22)

The purpose of the grant is to support municipal restructuring initiatives of large municipalities. Funds are made available on the basis of an approved restructuring plan that adresses challenges in a sustainable manner.

Water Services Operating and Transfer Subsidy (DWAF)

	2010 R	2009 R
Balance unspent at beginning of year	9,402,864	9,503,684
Conditions met - transferred to revenue	(7,377,042)	(100,820)
Closing balance	**2,025,822**	**9,402,864**

Conditions still to be met - transferred to liabilities (see note 22).

The purpose of the grant is to fund bulk connector and internal infrastructure for water services at a basic level of service.

Urban Renewal Grant

	2010 R	2009 R
Balance unspent at beginning of year	377,500	-
Current - year receipts	175,850	377,500
Conditions met - transferred to revenue	15,529	-
Closing balance	**568,879**	**377,500**

Conditions still to be met - transferred to liabilities (see note 22)

Grant for development of erven.

Notes to the Annual Financial Statements

	2010 R	2009 R

33. Other income

Other income from exchange transactions		
Administration costs recoverable	242,313	1,581,516
Building plan fees	1,992,830	2,172,988
Commission fresh produce market	13,834,250	13,263,780
Entrance fees	1,255,847	1,095,267
Grave plots	2,489,429	2,466,006
Parking fees	730,232	804,888
Sale of land	3,931,995	12,401,238
Sale of redundant materials	2,639	796,940
Special removals	765,351	1,180,520
Sundry income	9,380,107	9,612,823
Training costs recoverable	667	885,518
Other income from non-exchange transactions		
Actuarial gain on defined benefit plan obligation	(11,425,000)	44,584,000
Reconnection of water	405,753	1,783,063
Unclaimed deposits	1,861,941	2,324,989
	25,468,354	**94,953,536**

34. General expenses

Advertising	1,519,325	1,612,744
Bank charges	4,247,402	3,638,005
Chemicals	6,004,385	6,536,979
Community development projects	2,863,849	4,022,022
Conferences and delegations	2,976,141	3,563,841
Electricity	25,039,056	20,174,655
Financial Management Grant - projects	1,058,911	2,235,348
Fuel	17,930,143	22,829,907
Hire equipment	3,628,005	3,633,137
IDP CBP and ward committee planning	3,110,756	2,906,447
Indigent burials	3,285,924	3,123,240
Insurance	3,273,581	3,414,747
Inventory write-offs	161,165	862
Legal expenses	9,025,271	4,674,841
Marketing	12,543,380	6,851,582
Sundry expenses	41,895,257	39,986,104
Postage	5,294,591	4,660,886
Printing and stationery	4,951,949	5,634,709
Provision for rehabilitation of quarries and landfill sites	4,425,803	5,615,874
Reconnection test and removal - meters	1,072,936	2,668,787
Refreshments	619,272	673,750
Restructuring grant - projects	1,795,083	5,968,212
Skills development	175,717	451,639
Skills development levy	4,492,945	3,985,203
Special projects - cleansing	1,891	46,952
Stores and material	3,649,045	3,567,601
Subscriptions	4,756,380	3,698,845
Telephone and cellular costs	13,343,027	12,231,569
Tools, plant and equipment	449,406	546,742
Training costs	1,627,032	1,891,749
Uniforms and protective clothing	3,148,317	3,185,204
Vacuum services	5,954,823	4,325,629
Vehicle tracking system	359,419	(484,524)
World Cup expenditure (disclosed hereunder)	59,267,332	9,122
Water	3,964,933	3,527,931
Water leakage awareness and repairs	4,877,042	4,984,223
Water research	2,025,534	1,795,716

		2010 R	2009 R
34. (continued)			
Workmen's compensation contributions		2,268,454	2,082,464
		267,083,482	**200,272,744**

Distribution of World cup tickets	**Quantity**		
Value of ticket purchases	-	15,053,914	5,475,470
Mass Mobilisation programmes	20,573	-	-
Organisations for People with disabilities	300	-	-
Supporters clubs	9,000	-	-
Indigents	3,000	-	-
Community organisations / Churches, schools, etc	12,600	-	-
Clients/stakeholders	1,400	-	-
Total tickets aquired	**46,873**	**15,053,914**	**5,475,470**

Travel costs		
Accounting authority (Councillors)	44,877	-
Senior management and Accounting officer	23,148	-
Other employees	16,197	-
Total travel costs	**84,222**	**-**

Purchases of other world cup apparel		
T-shirts, caps, flyers and other marketing material	3,080,463	-

35. Surplus for the year

Surplus for the year for the period is stated after accounting for the following:

Operating lease charges		
Buildings	3,464,955	7,641,195

Depreciation and amortisation of property, plant and equipment		
Depreciation - Buildings	19,664,851	19,350,358
Depreciation - Infrastructure	82,258,187	77,410,739
Depreciation - Community assets	899,786	900,226
Depreciation - Other assets	18,537,386	19,342,809
Depreciation - Lease assets	1,664,375	2,094,208
Amorisation - Intangible assets	2,325,253	2,513,377
	125,349,838	**121,611,717**

36. Employee related costs

Current service cost	18,556,000	16,754,000
Employee related costs - Salaries and wages	454,911,308	398,908,094
Employee related costs - Contributions to UIF, pensions and medical aids	98,398,638	82,920,311
Housing benefits and allowances	3,541,749	5,160,168
Long-service awards	-	15,000
Overtime payments	47,433,564	35,061,137
Performance bonusses	-	2,126,847
Provision for bonusses	1,706,646	967,371
Provision for leave	18,326,434	10,662,331
Travel, motor car, accommodation, subsistence and other allowances	38,732,514	35,700,604
	681,606,853	**588,275,863**

Remuneration of City Manager

	2010 R	2009 R

36. Employee related costs (continued)

Annual Remuneration	1,008,510	981,988
Car Allowance	220,000	150,000
Contributions to UIF, Medical and Pension Funds	183,652	15,767
Performance Bonus	-	212,543
	1,412,162	**1,360,298**

The remuneration as reflected in 2010, is for a period of 11 months and for 2009 a period of 10 months.

Remuneration of Chief Finance Officer

Annual Remuneration	903,907	876,794
Car Allowance	156,000	156,000
Contributions to UIF, Medical and Pension Funds	212,657	182,769
Performance Bonus	-	57,140
	1,272,564	**1,272,703**

Remuneration of the Chief Operating Officer

Annual Remuneration	207,706	1,028,086
Car Allowance	8,790	72,165
Contributions to UIF, Medical and Pension Funds	382	8,415
Leave pay	312,606	-
	529,484	**1,108,666**

The remuneration as reflected in 2010 is for a period of 3 months.

Executive Director: Corporate Service

Annual Remuneration	1,260,746	952,637
Car Allowance	84,000	84,000
Performance Bonus	-	172,905
Contributions to UIF, Medical and Pension Funds	1,542	1,539
Acting allowance	6,002	-
	1,352,290	**1,211,081**

Executive Director: Community and Social Development

Annual Remuneration	519,983	-
Performance Bonuses	73,000	-
Contributions to UIF, Medical and Pension Funds	88,555	-
	681,538	**-**

The remuneration as reflected in 2010 is for a period of 7 months.

Executive Director: Infrastructure

Annual Remuneration	927,928	812,880
Car Allowance	240,000	240,000
Contributions to UIF, Medical and Pension Funds	12,870	11,479
	1,180,798	**1,064,359**

Executive Director: Economic Development and Planning

	2010 R	2009 R

36. Employee related costs (continued)

Annual Remuneration	629,229	542,033
Car Allowance	60,000	60,000
Performance Bonuses	-	57,986
Contributions to UIF, Medical and Pension Funds	771	769
	690,000	**660,788**

The remuneration as reflected in both 2009 and 2010 is for a period of 6 months.

37. Remuneration of Councillors

Executive Major	675,011	625,594
Deputy Executive Mayor	540,008	504,680
Mayoral Committee Members	4,556,322	4,219,997
Speaker	540,008	500,474
Councillors	15,086,774	13,578,193
Chief Whip	506,258	473,138
	21,904,381	**19,902,076**

In-kind benefits

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

The Executive Mayor and Deputy-Executive director have use of council owned vehicles for official duties.

The Executive Mayor and Deputy Executive Mayor have two bodyguards on a rotational basis and an official driver at the cost of Council.

38. Bad debts and provision for bad debts

Non-current receivables	3,863,376	12,249,568
Consumer receivables from exchange transactions	81,904,204	170,781,529
Other receivables from exchange transactions	(3,057,450)	(4,062,057)
	82,710,130	**178,969,040**

39. Investment revenue

Interest earned		
Bank	2,574,559	5,104,276
Consumer receivables	23,553,754	27,332,063
Investments	8,568,971	18,371,666
Non-current receivables	123,489,030	96,218,310
Fair value adjustment	9,609,671	9,413,387
	167,795,985	**156,439,702**

40. Depreciation and amortisation

Property, plant and equipment	123,024,585	119,106,221
Intangible assets	2,325,253	2,513,378
	125,349,838	**121,619,599**

41. Finance cost

Borrowings - The Development Bank of South Africa	1,385,859	2,257,982
Consumer deposits	942,630	1,221,008

	2010 R	2009 R

41. Finance cost (continued)

Defined benefit plan obligation	29,709,000	31,933,000
Fair value adjustments to payables	8,376,539	7,695,351
Finance leases	323,794	407,484
	40,737,822	**43,514,825**

42. Operating lease

Lessor:

The future minimum lease payments received under non-cancellable operating leases are as follows:

Receivable within 1 year	6,716,666	3,287,197
Receivable within 1 - 5 years	145,269,782	14,210,152
Receivable later than 5 years	121,198,260	180,187,379
	273,184,708	**197,684,728**

The council leases various fixed properties under non-cancellable operating leases to various institutions. The lease agreements have escalations between 6 - 12% per year with the agreements varying between 2 - 50 years. Rental income, for these agreements, to the value of R 6,879,692 has been recognised in the Statement of financial performance during the year.

Lessee:

The future minimum lease payments under non-cancellable operating leases are as follows:

Payable within 1 year	594,149	594,149
Payable within 1 - 5 years	742,687	1,336,836
	1,336,836	**1,930,985**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of three years. No contingent rental agreements existed for the reporting period.
No sublease contracts existed for the reporting period.

No contingent rental agreements existed for the reporting period.

43. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	13,573,726	14,671,467
Rental of equipment	3,293,684	3,429,470
Rental of other	1,810,863	802,510
	18,678,273	**18,903,447**

44. Contracted services

Information Technology Services	82,583,402	43,807,005

45. Grants and subsidies paid

Other subsidies

Bursaries - employees	826,383	723,253
Centlec (Pty) Ltd - free services recoverable	43,864,768	36,669,683
Central Agricultural Society	8,107	7,370

Notes to the Annual Financial Statements

	2010 R	2009 R
45. Grants and subsidies paid (continued)		
Cost of living allowance - pensioners	153,642	141,874
Employees and ex-employees	(258)	-
Miscellaneous grants	93,364	83,434
National Electrification Program Grant	1,227,000	63,196,600
S P C A	328,130	298,300
	46,501,136	**101,120,514**

Bursaries - employees
Bursaries are paid to employees in accordance with the approved study scheme.

Centlec (Pty) Ltd - free services recoverable
The free electricity provided by Centlec (Pty) Ltd is recoverable from the Equitable Share Grant.

Central Agricultural Society
The payment to the Central Agricultural Society is for the maintenance of council's property at the show grounds, which are used in accordance with an agreement with the society.

Cost of living allowance - pensioners
The cost of living allowance is applicable to Black pensioners of the former Bloemfontein municipality who did not belong to a pension fund, which are subsidised according to an approved formula.

Miscellaneous grants
Miscellaneous grants are allocated mainly for ad hoc grants and the free use of council facilities, as approved during the year.

National Electrification Program Grant
The National Electrification Program Grant received by the municipality was transferred to Centlec. See note 25.1

S P C A
The subsidy to SPCA is paid annually to assist this organisation in performing its tasks.

46. Bulk purchases

	2010 R	2009 R
Electricity	30,235,598	-
Water	187,207,256	168,087,285
	217,442,854	**168,087,285**

47. Cash generated from operations

	2010 R	2009 R
Surplus	288,049,039	126,425,008
Adjustments for:		
Depreciation and amortisation	125,349,838	121,619,599
Fair value adjustments	434,489	-
Finance costs	2,652,283	-
Interest income	(11,143,530)	-
Debt impairment	82,710,130	251,028,299
Movements in retirement benefit assets and liabilities	42,371,000	(3,966,000)
Movements in provisions	4,425,803	5,400,510
Actuaruial finance costs	11,425,000	-
Provision for bonusses	1,706,646	-
Other non-cash items	18,326,434	-
Changes in working capital:		
Inventories	(5,355,570)	(1,075,809)
Accounts receivable	(102,303,186)	(39,595,919)
Consumer deposits	1,217,359	-
Impairment	-	(166,719,471)
Payables from exchange transactions	176,503,052	18,778,015

Notes to the Annual Financial Statements

	2010 R	2009 R
47. Cash generated from operations (continued)		
Taxes and transfers payable (non exchange)	30,681,076	20,437,201
Unspent conditional grants and receipts	-	199,369,979
Leave paid out to employees	(7,147,347)	-
Unspend conditional grants	(184,900,228)	-
	475,002,288	**531,701,412**

48. Capital commitments

Commitments in respect of capital expenditure

	2010 R	2009 R
Approved and contracted for		
• Infrastructure	536,082,859	516,317,295
• Community	23,300,668	11,052,946
	559,383,527	**527,370,241**

49. Contingent liabilities

	2010 R	2009 R
Guarantees by Council in respect of housing loans at financial institutions for officials	**2,973,881**	**3,197,981**

	2010 R	2009 R
Pending claims		
The municipality is being sued according to the following pending claims against the Council. All the claims are being contested based on legal advice.	-	-
- A claim for payment of animals which have died after the date of delivery.	184,000	240,000
- A claim for an alleged breach of contract in respect of the allocation of a tender.	300,000	300,000
- Outstanding claims regarding labour disputes.	-	500,000
- Claim against municipality from person wishing to evict persons from erf in Botshabelo.	-	1,260,000
- A claim for an alleged breach of contract regarding the constructing of the Free State stadium for 2010.	2,000,000	22,000,000
- A claim for death benefits paid to dependants of Tshehlana on behalf of the municipality.	92,000	80,000
- A claim for death benefits paid to dependants of Manjingolo on behalf of the municipality.	74,700	65,000
- A claim for damages due to wrongful sale of property.	-	1,400,000
- Claims by individuals due to injuries in various incidents.	-	11,517
- Claims by individuals due to damage of vehicles in various incidents.	-	286,848
- A claim by Murray and Roberts Properties for repayment of Service Charges.	402,500	350,000
-A claim for the repayment of an amount paid as clearance figures	3,364	-
-A claim for damages - employee injured whilst on duty	450,000	-
	3,506,564	**26,493,365**

Notes to the Annual Financial Statements

	2010 R	2009 R

50. Related parties

Relationships

Controlling entity	Mangaung Local Municipality
Controlled entities	Centlec (Pty) Ltd - refer to note 6

A company, Centlec (Pty) Ltd, of which Mangaung Local Municipality is the sole shareholder, was formed to take over all activities in respect of the supply of electricity for their own account. All electricity assets, including certain of the receivables of the electricity service, were taken over by Centlec (Pty) Ltd. The income formerly derived from the electricity service, was replaced by interest to be received on a loan account. The company has commenced with business on 1 July 2005.

Investment in municipal entity - Centlec (Pty) Ltd

	2010	2009
Issued share capital	100	100
Percentage owned by council (%)	100%	100%
Balances at reporting date:		
Indebtness of municipal entity	820,921,087	755,767,749
Inter-company loan from Centlec (Pty) Ltd	(300,756,258)	(183,641,389)
Transactions:		
Administration fees received	(7,131,792)	(5,444,009)
Electricity charges paid	(25,039,056)	20,174,655
Employee related costs received	(97,121,310)	(83,016,090)
Insurance received	(774,968)	(502,520)
Interest received: Shareholder's loan	(109,407,756)	(84,435,645)
Interest received: Loan advances	(11,809,442)	(9,622,364)
Management fees received	(2,137,516)	(1,354,800)
Water charges received	(8,370)	(11,398)

Loans to key management and close family members	**Opening balance**	**Loans repaid**	**Closing balance**
Mochochoko T M M	256	(256)	-
Mafisa MA	43,453	(40,302)	3,151
	43,709	**(40,558)**	**3,151**

Senior staff obtained loans at 8.50% interest per annum repayable over a maximum period of 6 years. Repayments are made on a monthly basis by way of salary deductions. These loans are being phased out and are repayable in the year 2010.

Remuneration of key management personnel and Council

See note 36 for remuneration of key management personnel and Council.

Notes to the Annual Financial Statements

51. Restatement of comparative information regarding 2009 prior period errors

Summary of restatement due to errors. Note 52 to note 66

The summary of restatements due to errors:

Statement of financial position	
Decrease in consumer receivables from exchange transactions	(60,624,720)
Decrease in other receivables from exchange transactions	(11,598,054)
Increase in non-current receivables from exchange transactions	(2,140,793)
Decrease in VAT payable	5,118,935
Increase in payables	(18,246,375)
Increase in property, plant and equipment	503,346
Increase in intangible assets	78,109
Increase in inter-company suspense account	12,226,491
Decrease in stock	(66,812)
Increase in sundry receivables	4,635
Increase in self-insurance reserve	57,301
Statement of financial performance	
Increase in provision for bad debts	72,059,259
Increase in general expenditure	12,110
Increase in gain on foreign exchange	(713)
Increase in grants and subsidies paid	15,998,216
Increase in depreciation	782
Decrease in repairs and maintenance	(173,145)
Increase in service charges levied	(3,596,027)
Decrease in free electricity expenditure	(635,431)
Increase in cost of sales	67,079
Increase in other income	4,635
Increase in opening balance accumulated surplus	(9,039,558)

52. Prior period errors - Centlec inter company transaction

No service charges were levied on properties transferred from the municipality to Centlec from the effective date of sale 1 July 2005, but not yet registered in the name of Centlec. The comparative figures have been restated.

The correction of the error results in adjustments as follows:

Statement of financial position	
Decrease in payables form exchange transactions	12,226,491
Increase in accumulated surplus	(8,630,464)
Statement of financial performance	
Increase in property rates income	(3,595,154)

Cash flow statement

Cash flow from operating activities	
Movement in payables - Centlec (Pty) Ltd	(3,595,154)
Increase in profit	3,595,154
	-

Notes to the Annual Financial Statements

53. Prior period errors - Intangible assets

During May 2009 new servers and computer software were purchased for the Fresh Produce Market, these costs were expensed as they were incurred. The cost of these assets should have been capitalised as an asset and not expensed.

The correction of the error results in adjustments as follows:

Statement of financial position	
Increase in Property, plant and equipment	93,451
Increase in Intangible assets	78,110
Statement of financial performance	
Increase in Depreciation and amortisation	2,886
Decrease in Repairs and maintenance	(173,145)
Cash flow statement	
Cash flow from operating activities	
Payments - suppliers	173,145
Cash flow from investing activities	
Purchases of property, plant and equipment	(95,035)
Purchase of intangible assets	(78,110)
	(173,145)

54. Prior period errors - Finance leases

Not all movements in finance leases were correctly accounted for in the prior periods. Certain leases were also erroneously omitted from the prior periods finance lease liability balance. The disposal of certain leases were not brought into account in some instances.

The correction of the error results in adjustments as follows:

Statement of financial position	
Property, plant and equipment	22,688
Finance lease liability	(23,470)
Statement of financial performance	
Decrease in general expenditure: hire of equipment	(9,484)
Decrease in finance cost	1,454
Increase in depreciation	8,812
Cash flow statement	
Cash flow from operating activities	
Accumulated surplus	782
Cash flow from investing activities	
Movement in property, plant and equipment	22,688
Cash flow from financing activities	
Movement in finance lease liability	(23,470)

Notes to the Annual Financial Statements

55. Prior period errors - General expenditure

Transactions were incorrectly allocated to training cost and not to conferences & delegations.

The correction of the error results in adjustments as follows

Statement of financial performance	
Increase in general expenditure: training cost	(16,144)
Increase in general expenditure: conferences and training	16,144

Cash flow statement

56. Prior period errors - VAT

Apportionment VAT was not claimed on transactions relating to Free Services for Electricity.The receipts should be recorded in 2008/09, hence the error was corrected and thecomparative statements restated.

The summary of restatements due to errors:

Statement of financial position	
Increase in VAT receivable	635,432
Statement of financial performance	
Decrease in general expenditure: Grants and subsidies paid	(635,432)
Cash flow statement	
Cash flow from operating activities	
VAT payable	(635,432)
Accumulated surplus	635,432
	-

57. Prior period errors - Foreign exchange

The foreign exchange gain calculated on a transaction before the 2008/09 year end was not included in the financial statements for 2009. The comparative figures for 2008/09 have been restated.

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

Statement of financial position	
Increase in payables from exchange transactions	(8,409)
Statement of financial performance	
Increase in general expenditure: world cup expenditure	9,122
Increase in gain on foreign exchange difference	(713)
Cash flow statement	
Cash flow from operating activities	
Payables from exchange transactions	8,409
Accumulated surplus	(8,409)
	-

Notes to the Annual Financial Statements

58. Prior period errors - VAT on Insurance claims

Output VAT was not declared on insurance claims income received.

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

Statement of financial position	
Increase in VAT payable	(57,302)
Statement of financial performance	
Increase in general expenditure: other	1,300
Increase in repairs and maintenance	39,459
Increase in general expenditure: contracted services	3,896
Increase in general expenditure: telephone and cellular costs	2,292
Increase in general expenditure: tools, plant and equipment	10,355
Cash flow statement	
Cash flow from operating activities	
VAT payable	(57,302)
Self insurance reserve	57,302
	-

59. Prior period errors - Receipts of parking and Zoo entrance

Receipts for parking garage and Zoo entrance fees, were only recorded in 2009/10 although it was issued during 2008/09. The receipts should be recorded in 2008/09, hence the error was corrected and the comparative statements restated.

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

Statement of financial position		
Increase in sundry receivables		4,635
Statement of financial performance		
Increase in other income: Entrance fees	-	(4,372)
Increase in other income: Parking fees		(263)
Cash flow statement		
Cash flow from operating activities		
Other receivables from exchange transactions		4,635
Accumulated surplus		(4,635)
		-

60. Prior period errors - Rodenbeck smallholdings

Rodenbeck smallholdings were received for outstanding debt, but was not recognised in Property, plant and equipment, but expensed in the 2008/09 financial year. The land should have be recorded in 2008/09, hence the error was corrected and the comparative statement restated.

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

Statement of financial position	
Property, plant and equipment	455,090
Opening accumulated surplus or deficit	(455,090)
	-

Notes to the Annual Financial Statements

61. Prior period errors - water stock calculation

The calculation of the purified water was incorrectly done, resulting in stock being overstated. The comparative figures have been restated.

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

Statement of financial position	
Decrease in inventory	(67,079)
Statement of financial performance	
Increase in bulk purchases	67,079
Cash flow statement	
Cash flow from operating activities	
Inventory	(67,079)
Accumulated surplus	67,079
	-

62. Prior period errors - VAT

VAT incorrectly claimed on expenses hence expenditure was understated. A correcting journal was processed, but was incorrectly posted to the 2009/2010 financial year.

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

Statement of financial position	
Decrease in the VAT Input Debtor	(3,254)
Statement of financial performance	
Decrease in general expenditure: Marketing	698
Decrease in general expenses: Other	2,411
Cash flow statement	
Cash flow from operating activities	
VAT payable	3,110
Accumulated surplus	(3,110)
	-

63. Prior period errors - Centlec suspense account

Two Centlec suspense accounts should be reallocated from Mangaung local municipality to Centlec (Pty) Ltd. These accounts are included under the payments in advance list of Mangaung. The error has been rectified

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

Statement of financial position	
Increase in inter company-suspense account	140,472
Decrease in non-current receivables from exchange transactions	(140,472)
Cash flow statement	
Cash flow from operating activities	
Increase in inter company-suspense account	140,472
Decrease in payments: Suppliers	(140,472)
	-

Notes to the Annual Financial Statements

64. Prior period errors - Duplication of transactions

A journal was incorrectly captured to reverse a transaction during January 2009 that never occurred. The reversal journal was corrected. The comparative statements for 2008/09 have been restated.

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

Statement of financial position	
Decrease in VAT payables	2,239,750
Increase in payables from exchange transactions	(18,237,966)
Statement of financial performance	
Increase in Grants and subsidies paid	15,998,216
Cash flow statement	
Cash flow from operating activities	
Taxation	(2,239,750)
Restatement- Increase in suppliers	18,237,966
Restatement- Increase in other payables	(15,998,216)
	-

65. Prior period errors - finance leases

Depreciation on capitalised finance leases was recalculated. It was previously calculated on the incorrect commencement dates. Cellular phone contracts should have been scrapped when a new contract was signed, this was not previously done. The comparative statements for 2008/09 have been restated.

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

Statement of financial position	
Property, plant and equipment	(46,926)
Opening accumulated surplus or deficit	45,996
Statement of financial performance	
Depreciation expense	930
Cash flow statement	
Cash flow from operating activities	
Accumulated surplus	930
Depreciation	(930)
	-

Notes to the Annual Financial Statements

66. Prior period errors - Impairment for consumer receivables

Impairment for consumer receivables was recalculated in terms of the Financial Asset impairment policy and procedures. The comparative statements for 2008/09 have been restated.

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

Statement of financial position	
Decrease in consumer receivables from exchange transactions	(60,624,720)
Decrease in other receivables from exchange transactions	(11,598,054)
Increase in non-current receivables from exchange transactions	163,516
Statement of financial performance	
Increase in bad debts and provision for bad debts	72,059,259

Cash flow statement

Cash flow from operating activities	
Accumulated surplus	72,059,259
Bad debts and provision for bad debts	(72,059,259)
	-

	2010 R	2009 R

67. Risk management

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:
- Liquidity risk
- Market risk
- Credit risk

This note presents information about the municipality's exposure to each of the above risks and the Municipality's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout the Annual Financial Statements.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The municipality has not defaulted on external loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. .

Impairment losses

All of the municipality's financial assets have been reviewed for indicators of impairment. Certain receivables and investments were found to be impaired and a provision of R841,852,413 (2009: R759,180,042) has been recorded accordingly. The impaired trade receivables are mostly due from consumers defaulting on service costs levied by the municipality. Refer to Note 4, 6 and 7 for the impairment reconciliation of trade and other receivables and note 3 for impairment of investments.

Maximum exposure to credit risk at reporting date was:		
Available for sale investments	10,467	8,795
Cash and cash equivalents	45,244,821	237,908,991
	45,255,288	**237,917,786**

Maximum exposure to credit risk at reporting date for loans and receivables as per counter parties was:		
Trade and other receivables from exchange transactions	920,983,065	803,830,733
Trade and other receivables from non - exchange transactions	395,802	315,259
Loans to group entities - Centlec (pty) Ltd	820,921,087	755,767,749
Study loans	49,599	61,509
Motor vehicle loans	975,093	1,443,469
Erven loans	17,602,970	16,714,938
Housing selling scheme loans	42,731,900	40,174,900
Other receivables	109,139,797	108,560,556
	1,912,799,313	**1,726,869,113**

Non- Derivative financial liabilities At 30 June 2010	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Secured bank loans	3,189,746	3,058,159	8,779,708	1,463,285
Trade and other payables	708,181,503	-	-	-
Finance lease liability	1,498,303	1,289,926	-	-

	2010 R	2009 R

67. Risk management (continued)

At 30 June 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Secured bank loans	3,189,746	3,189,746	8,911,293	4,389,852
Trade and other payables	454,518,971	-	-	-
Finance lease liabilities	1,587,665	2,743,193	-	-

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

Unimpaired trade receivables	2010	2009
Current (0 - 30 days)	12,081,558	10,049,915
31 - 60 days	6,295,585	6,317,289
60 - 90 days	4,597,722	5,253,974
90 days +	127,415,474	108,048,882
	150,390,339	**129,670,060**

The ageing of impaired consumer receivables at reporting date was as follows:

Impaired Consumer receivables	2010	2009
Current (0 - 30 days)	60,900,512	52,593,694
31 - 60 days	31,751,949	33,175,209
61 - 90 days	23,230,309	27,615,362
90 days +	652,639,344	572,748,676
	768,522,114	**686,132,941**

Market rate risk

Market risk is the risk that changes in the market prices, such as interest rates and equity prices will affect the municipality's income or the value of its holdings of financial instruments.

Interest rate risk
The municipality limits its interest rate risk on financial liabilities by ensuring that reasonable fixed interest rates are negotiated on long term loans.

At reporting date the interest rate profile of the Municipality's interest bearing financial instruments was:

Fixed rate instruments	2010	2009
Financial assets	820,921,087	755,627,277
Financial liabilities	37,600,774	38,168,473
	858,521,861	**793,795,750**

Variable rate instruments	2010	2009
Financial assets	295,270,634	449,975,418
Financial liabilities	920,533,792	853,412,996
	1,215,804,426	**1,303,388,414**

Fair value sensitivity analysis on fixed rate instruments
The municipality does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore a change in interest rates at reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
The analysis below assumes that all other variables except interest rates will remain constant. A 100 basis points (2009: 300 basis points) increase or decrease was used to report possible changes in surplus for the year due to interest rate risk. The sensitivity rates are based on managements assessments of reasonable possible changes in

67. Risk management (continued)

interest rates. A decrease in rates used of 1% in comparison to the prior year is the result of anticipated Reserve Bank repo rate adjustments in an attempt to keep interest rates consistent and hence stabilising the economy during the global economic crisis. The prime lending rates are thus affected by these changes. The prior periods expected fluctuation was larger as interest rates increased quite significantly owing to the rising inflation rates which is not the case as at this reporting date. Inflation has remained constant owing to the global economic recession.

Cash flow sensitivity:

30 June 2010	**Profit or loss**	
	100 bp increase	100 bp decrease
Variable rate instruments	(12,595,964)	12,595,964

30 June 2009	**Profit or loss**	
	300 bp increase	**300 bp decrease**
Variable rate instruments	(34,044,879)	34,044,879

Other market price risk
The municipality is exposed to equity price risk through its investment in a widely held company. The investment is with a reputable public company thus limiting the municipality's exposure to price risk. Price risk is also limited due to minimal Rand value of the investment. A sensitivity analysis was based on managements estimates of anticipated changes in market prices of the shares at reporting date, this equated to a 18% (2009: 3%) variation. The rate used for the sensitivity analysis increased by 15% in comparison to prior year due to the increase in the share price of the widely held company. The effects of this variation would constitute a R1 884 decrease or increase in equity (2009: R264).

Fair values

The fair value of financial assets with standard terms and conditions and traded in an active market is determined with reference to quoted market bid prices and ask prices respectively. Except as detailed below, disclosures of all other fair values of applicable financial instruments has not been made as a reliable estimate of their values could no be determined, furthermore the investment in Centlec (Pty) Ltd a subsidiary of the municipality to the value of R100 is stated at cost as this equity instruments is not traded in an open market, and consequently no fair value could be reasonably estimated:

30 June 2010	**Carrying amount**	**Fair value**
Available for sale investments (OVK holdings Limited)	2,535	10,367

30 June 2009	**Carrying amount**	**Fair value**
Available for sale investments (OVK holdings Limited)	2,535	8,695

68. Going concern

We draw attention to the fact that at 30 June 2010, the municipality had accumulated surplus of R 1,910,235,572 and that the municipality's total assets exceed its liabilities by R 2,594,388,376.

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

The ability of the municipality to continue as a going concern is dependent on the equitable share received from Provincial Treasury.

	2010 R	2009 R

69. Events after the reporting date

The Accounting Officer is not aware of any matter or circumstances arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosure in the annual financial statements.

70. Unauthorised expenditure

	2010	2009
Opening balance	342,867,794	120,251,226
Add: Unauthorised expenditure - current year	-	222,616,568
	342,867,794	**342,867,794**

Details of unauthorised expenditure – current year

Incidents regarding 2007/2008:	**Disciplinary steps taken/criminal proceedings**	
Office of the City Manager	Awaiting condonation	965,000
Infrastructural Services	Awaiting condonation	21,389,005
Miscellaneous Services	Awaiting condonation	168,868,774
Water	Awaiting condonation	31,393,789
Incidents regarding 2008/2009:		
Unbudgeted expenditure	Awaiting condonation	107,235,351
Unbudgeted capital expenditure - Environmental Management	Awaiting condonation	423,098
Unbudgeted capital expenditure - Infrastructure Services	Awaiting condonation	12,592,777
Incidents regarding 2009/2010:		
Overspending on the Finance directorate due to debt collection service providers overpaid	None	6,881,000
		349,748,794

71. Fruitless and wasteful expenditure

	2010	2009
Opening balance	2,796,522	46,725
Add: Fruitless and wasteful expenditure	1,326,830	2,749,797
	4,123,352	**2,796,522**

Details of fruitless and wasteful expenditure	**Disciplinary steps taken/criminal proceedings**		
During 2008 an amount of R41,490 was identified as fruitless and wasteful expenditure that was paid as penalties and interest to SARS on late payment of UIF for Councillors. The municipality ceased payment of UIF for councillors according to a directive received from SALGA during 2003. During 2006/07 it was determined that UIF was payable to SARS, which resulted in penalties and interest on late payment of UIF. This amount is not recoverable as no official of the municipality is liable for the non-payment of the UIF contributions.	It was found that this expense could not be recovered and an item were prepared for condonation	41,490	41,490

Notes to the Annual Financial Statements

		2010 R	2009 R

71. Fruitless and wasteful expenditure (continued)

During the 2008/09 financial year interest to the amount of R5,235 was paid to Eskom on overdue accounts.	It was found that this expense could not be recovered and an item were prepared for condonation	5,235	5,235
During 2008/09 financial year excessive credit card expenditure of the Executive Mayor was incurred relating to accomodation.	To be condoned as the money can not be recovered as there was weaknesses in the policies. A new Business Credit Card policy has been drafted and are awaiting approval	2,010	2,010
Fruitless and wasteful expenditure incurred for settlement and legal cost.	To be condoned by council	2,744,214	2,711,214
No support could be obtained that official attended the meeting.	The matter is being investigated	3,574	3,574
An advance payment was made to a supplier while it is unsure whether the site has been established.	None	1,099,158	-
Interest paid on late payment as a result of payment kept back as penalties charged to a supplier for breach of contract. Court ordered the penalties not to be charged to the supplier.	None	191,066	-
Expenditure incurred on fuel cards while the use of the fuel cards has been stopped.	None	36,606	-
		4,123,353	**2,763,523**

72. Irregular expenditure

Opening balance	35,560,786	23,140,077
Add: Irregular expenditure	-	4,887,109
Add: Irregular expenditure - not previously disclosed	-	7,533,600
	35,560,786	**35,560,786**

Details of irregular expenditure

Incident	**Disciplinary steps taken/criminal proceedings**		
Vehicle tracking expenditure	Officials suspended, investigation ongoing.	14,706,860	14,706,860
Irregularities surrounding circumstances of the awarding of tender MD58 - 2006/2007	The Contract has been terminated, Internal audit has recommended that the supplier be blacklisted. The expenditure is awaiting condonement from Council.	961,607	961,607

		2010 R	2009 R

72. Irregular expenditure (continued)

Irregular training costs incurred	The official has resigned on the 1st March 2009. No costs can be recovered from the official according to the Disciplinary Tribunal. The expenditure is awaiting condonation from Council.	931,789	931,789
Irregular skills development costs incurred	The official has resigned on the 1st March 2009. No costs can be recovered from the official according to the Disciplinary Tribunal. The expenditure is awaiting condonation from Council.	1,291,436	1,291,436
Expenditure incurred without adhering to the Supply Chain Management Policy requiring three quotations	The matter is being investigated	192,535	192,535
Expenditure incurred without adhering to the Supply Chain Management Policy requiring three quotations	The matter is being investigated	1,507,434	1,507,434
Expenditure incurred without adhering to the Supply Chain Management Policy and handed over to the Fraud and Risk Management section	These transactions have been investigated by the Anti-Fraud department and are in the process of being handed over to SAPS. The relevant employees were suspended. The expenditure is awaiting condonation from Council.	5,060,762	5,060,762
Expenditure incurred for which the appropriateness of authorisation or approval could not be confirmed	The matter is being investigated	3,554,014	3,554,014
Expenditure incurred without adhering to the Supply Chain Management Policy requiring an requisition	These transactions have been investigated and are in the process of being handled over to SAPS. The relevant employees were suspended. The expenditure is awaiting condonation from Council.	119,951	119,951
Expenditure incurred without adhering to the Supply Chain Management Policy requiring a invoice	The matter is being investigated	759,775	759,775
Expenditure incurred without adhering to the Supply Chain Management Policy requiring a deviation letter	The matter is being investigated	170,566	170,566
Expenditure incurred without adhering to the Supply Chain Management Policy and handed over to the Fraud and Risk Management section	These transactions have been investigated by the Anti-Fraud department and are in the process of being handed over to SAPS. The relevant employees were suspended. The expenditure is awaiting condonation from Council	658,717	658,717

		2010 R	2009 R

72. Irregular expenditure (continued)

Speciment signature could not be provided to substantiate approval signatures	These transactions relate to weaknesses in the system. The authorising controls has been improved. The expenditure is awaiting condonation from Council.	8,000	8,000
Expenditure incurred without adhering to the Supply Chain Management Policy requiring that suppliers should be included on the approved suppliers list for orders below R30,000	The matter is being investigated	407,917	407,917
Expenditure incurred without adhering to the Supply Chain Management Policy requiring a deviation letter for deviating from the supply chain management procedures	The matter is being investigated	159,643	159,643
Expenditure incurred without adhering to the Supply Chain Management Policy requiring a deviation letter for deviating from the supply chain management procedures	The matter is being investigated	5,069,781	5,069,781
		35,560,787	**35,560,787**

73. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Council subscriptions	3,321,301	2,889,434
Amount paid - current year	(3,321,301)	(2,889,434)
	-	-

Audit fees

Opening balance	336,705	-
Prior year audit fee	5,096,033	5,140,190
Current year regularity audit fees	2,027,277	668,683
Current year performance audit fees	652,538	619,419
Amount paid - current year	(7,635,217)	(6,268,448)
Restatement of audit fees	-	176,861
	477,336	**336,705**

PAYE and UIF

Opening balance	5,602,945	5,311,370
Current year payroll deductions	83,835,898	72,963,362
Amount paid - current year	(83,835,898)	(67,360,417)
Amount paid - previous years	(5,602,945)	(5,311,370)
	-	**5,602,945**

	2010 R	2009 R

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

Skills development levy

	2010 R	2009 R
Opening balance	378,752	345,839
Payable during the current year	5,275,265	4,587,943
Amount paid - current year	(5,275,265)	(4,209,191)
Amount paid - previous years	(378,752)	(345,839)
	-	**378,752**

Pension and Medical Aid Deductions

	2010 R	2009 R
Opening balance	249,547	-
Current year payroll deductions and council contributions	139,861,484	121,676,920
Amount paid - current year	(139,861,484)	(121,427,373)
	249,547	**249,547**

VAT

	2010 R	2009 R
VAT receivable	(55,636,570)	(28,128,657)

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

The VAT of the Municipality is currently under investigation

	2010 R	2009 R

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dithebe GC	26	21	47
Human WF	9,962	18,822	28,784
Khi ZT	50	16	66
Lubbe DG	940	993	1,933
Makoa BM	4,367	101,578	105,945
Matsoentlane MJ	230	134	364
Mbange MB	1,588	3,252	4,840
Mokotjo NG	2,457	9,070	11,527
Moletsane SG	3,720	9,810	13,530
Mtshiwane KJ	507	191	698
Nthako TS	13	10	23
Nzapheza FB	376	261	637
Ramokotjo FP	577	21,227	21,804
Saohatse GK	564	557	1,121
Tsomela MM	334	453	787
Van der Merwe R	-	535	535
	25,711	**166,930**	**192,641**

30 June 2009	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Adoons NL	-	597	597
Choene SKM	1,108	1,105	2,213
Dithebe GC	-	69	69
Goliath EK	1,234	2,992	4,226
Human JS	3,293	12,596	15,889
July LR	720	566	1,286
Lubbe DG	552	292	844
Masita MJ	155	126	281
Matsoentlane MJ	284	2,036	2,320
Mbange MB	4,416	15,821	20,237
Minnie H	-	540	540
Mokotjo NG	2,717	6,635	9,352
Monyabane TA	2,142	23,120	25,262
Moroko LS	206	446	652
Morule FK	1,688	25,635	27,323
Motaung B	893	13,701	14,594
Mtshiwane KJ	543	1,838	2,381
Nothnagel J	(123)	4,219	4,096
Nzapheza FB	18	251	269
Petersen JE	851	3,464	4,315
Ramokone MA	-	241	241
Saohatse GK	705	6,056	6,761
Sechoaro CSK	-	461	461
Sefuthi SM	-	379	379
Siyonzana MA	957	1,666	2,623
Somimi PM	240	576	816
Stander AT	969	7,182	8,151
Tanyane SP	83	213	296

		2010 R	2009 R

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

Tsomela MM	344	1,158	1,502
	23,995	**133,981**	**157,976**

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

30 June 2010	Highest outstanding amount	Aging (in days - > than ... days)
Erasmus JC	820	90
Nakedi SS	2,602	90
Choene SKM	1,441	90
Morule FK	23,562	90
Siyonzana MA	10,873	90
	39,298	

30 June 2009	Highest outstanding amount	Aging (in days - > than ... days)
Dithebe GC	1,737	90
Jenkinson CE	4,398	90
Makhanya KNL	2,674	90
Minnie H	1,961	90
Moahi MM	280	90
Mzozana NM	796	90
Mzuzwana P	1,406	90
Van Biljon PJJ	7,851	90
	21,103	**720**

Supply chain management regulations

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

74. Utilisation of Long-term liabilities reconciliation

	2010	2009
Long-term liabilities raised	12,493,642	14,278,700

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

75. Actual operating expenditure versus budgeted operating expenditure

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure E(1).

76. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E.

Notes to the Annual Financial Statements

	2010 R	2009 R
77. Deviations on Supply chain process		
Deviations		
For the financial year there were instances where goods and services were procured and deviated from the normal Supply Chain Management Policy.	10,684,378	32,358,019
Deviations		
Number of deviations	130	29