Mangaung Metropolitan Municipality
Annual Financial Statements
for the year ended 30 June 2011

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.
Executive mayor	Morule FK
Deputy executive mayor	Siyonzana MA
Executive mayoral committee members	Choene SKM Makhanya KNL Marais A Mokotjo NG Moroka LS Mzozana NM Nzapheza FB Phupha NA Pongolo XD Ramokotjo FP Sechoaro CSK
Chief whip	Sefuthi SM
Speaker	Stander AT
Accounting officer	Msibi SJ
Chief finance officer	Taye BR
Registered office	Bram Fischer Building Cnr Nelson Mandela Street and Markgraaff Street Bloemfontein 9301
Business address	Bram Fischer Building Cnr Nelson Mandela Street and Markgraaff Street Bloemfontein 9301
Postal address	PO Box 3704 Bloemfontein 9300
Website	www.mangaung.co.za
Bankers	ABSA Bank Limited First National Bank Nedbank Limited Standard Bank The Development Bank of South Africa

General Information

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 Henney 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)

General Information

Councillors

*Bacela GM
Botes FR
Choene SKM
Dennis ME
Hlujane MD
Horn W
Jacobs TA
Jacobs TB
Janse v Vuuren DE
July LR
Khi ZT
Lazenby JAA
Lepoi MJ
Litabe TK
Mfazwe TM
Minnie H
Moilwa ME
Mokotjo NG
Mophethe TA
Mpakathe TS
Mtshiwane KJ
Phokoje SD
Pongolo XD
Powell JD
Pretorius JC
Rametse MA
Ramokotjo FP
Ramona TM
Sechoaro CSK
Selaledi M
Siyonzana MA
Snyman van Deventer E
Terblanche AP
Toba AL
Tsomela MM
Van Biljon PJJ
Van der Merwe R
Zerwick AS

* Re-elected councillors
** Newly elected councillors
*** Term expired and councillors were not re-elected

General Information

**Britz JF
Dibeco-Masuku MD
Dyosiba S
Eti MJ
Kaliya SG
Kuape PA
Lala TS
Leech D
Lekgela LE
Madela BNV
Makhele ET
Makoko P
Malebo MC
Mangcotywa ZE
Manyoni TM
Maphakisa LE
Masoetsa LA
Mathobisa ML
Matsemelela MV
Matsoetlane MJ
Moeng MA
Mofokeng MJ
Mogamise ID
Mogorosi SO
Mohapi MW
Mohlouoa MB
Mokoloko PR
Moloabi RLAE
Monnakgori SA
Mononyane MB
Moopelo TM
Moroe TCL
Moruri MM
Mosiuoa TA
Motladile MZ
Motlatsi HJ
Mpeqeka MS
Naile TJ
Ndamane SS
Nkoe MJ
Parkie TD
Phajane MA
Phupha NA
Pretorious C
Rabela KN
Rampai CLM
Ratsiu NA
Sebothelo ME
Sekakanyo DM
Sikoyo ZG
Thipenyane GTM
Titi Odilie LM
Tobie EC
Van der Westhuizen P
Van Niekerk HJC
Viviers BJ
Ward VW
Zophe NM

General Information

***Adoons NL
Chobane PI
Dithebe GC
Erasmus JC
Finger SE
Fouche GS
Goliath EK
Grobbelaar JU
Human JS
Jenkinson CE
Khutlane MS
Leraisa SP
Lubbe GD
Machelebeta PP
Makae TJ
Makhanya KNL
Makhele MM
Makoa B
Marais T
Masoabi AM
Masoetlane MJ
Mavuya MA
Mbange MB
Mokgothu LG
Moletsane SG
Mompati MR
Moroka LS
Morutle FK
Motaung B
Mzozana NM
Nakedi SS
Nkanyane AN
Nkikane WT
Nothnagel J
Nthako TS
Nzapheza FB
Olivier GJ
Petersen JE
Phuti DJ
Ramathebane G
Ramokone MA
Saohatse GK
Seeco MA
Sefuthi SM
Soebehle SN
Somimi PM
Stander AT
Tanyane SP
Van der Merwe JP

* Re-elected councillors
** Newly elected councillors
*** Term expired and councillors were not re-elected

Enabling legislation

The Division of Revenue Act of 2010
The Constitution of the Republic of South Africa
The Municipal Finance Management Act 56 of 2003
The Municipal Systems Act 32 of 2000

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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	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)
SALGA	South Africa Local Government Association

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 entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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 entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity 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 entity's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 8.

The annual financial statements set out on pages 8 to 88, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Msibi SJ
Accounting officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

The entity 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 and state of affairs of the entity are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the entity was R 411,203,893 (2010: surplus R 285,007,526).

2. Going concern

We draw attention to the fact that at 30 June 2011, the entity had accumulated surplus(deficits) of R 2,155,826,273 and that the entity's total assets exceed its liabilities by R 2,836,192,388.

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

The entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act of 2010.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

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

Name	Nationality
Msibi SJ	South African

7. Metro status

The establishment of Mangaung Metro lead to Motheo District Municipality being dissolved, effectively on the local government election day, 18 May 2011. However, the transfer of the relevant functions from Motheo District to Mangaung as a metro will be effective from 1 July 2011.

Mangaung Metropolitan Municipality
Formerly Mangaung Local Municipality
Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

	Notes	2011 R	2010 R
Assets			
Current Assets			
Inventory	4	9,377,337	11,438,504
Current portion of non-current receivables	5	19,954,917	13,779,002
Other receivables from exchange transactions	6	58,842,759	80,825,778
Other receivables from non-exchange transactions	7	79,567	395,802
Consumer receivables from exchange transactions	8	179,546,376	152,879,298
Cash and cash equivalents	9	231,675,533	46,885,251
		499,476,489	**306,203,635**
Non-Current Assets			
Property, plant and equipment	10	2,974,745,253	2,937,222,306
Intangible assets	11	12,650,818	2,808,295
Investments in controlled entities	12	100	100
Non-current receivables	5	831,036,224	827,911,769
		3,818,432,395	**3,767,942,470**
Total Assets		**4,317,908,884**	**4,074,146,105**
Liabilities			
Current Liabilities			
Current portion of non-current borrowings	14	2,184,181	1,976,260
Finance lease liability	15	1,176,310	1,729,914
Payables from exchange transactions	16	688,315,005	680,676,288
Payables from non-exchange transactions	17	2,558,375	3,660,624
Consumer deposits	18	27,464,066	25,107,132
Unspent conditional grants and receipts	19	231,636,753	231,838,776
VAT payable	20	78,619,536	87,095,362
		1,031,954,226	**1,032,084,356**
Non-Current Liabilities			
Non-current borrowings	14	20,162,975	10,517,382
Finance lease liability	15	2,987,468	644,038
Defined benefit plan obligation	21	346,569,849	350,917,000
Non-current provisions	22	80,041,978	74,285,678
		449,762,270	**436,364,098**
Total Liabilities		**1,481,716,496**	**1,468,448,454**
Net Assets		**2,836,192,388**	**2,605,697,651**
Net Assets			
Reserves			
Housing development fund reserve	23	3,650,426	11,202,948
Revaluation reserve	24	589,621,986	584,022,037
Mark-to-market reserve	25	9,333	7,832
Self-insurance reserve	26	76,090,167	74,606,710
COID reserve	27	10,994,203	14,313,277
Accumulated surplus		2,155,826,273	1,921,544,847
Total Net Assets		**2,836,192,388**	**2,605,697,651**

Statement of Financial Performance

	Notes	2011 R	2010 R
Revenue			
Fines		1,639,801	1,385,004
Government grants and subsidies	30	881,341,483	853,664,974
Income from agency services		116,010,183	107,165,586
Interest received	31	171,170,384	167,795,985
Licences and permits		203,192	199,304
Other income	32	108,597,698	36,893,354
Property rates	33	405,477,227	342,459,519
Rental income	34	18,030,068	19,589,794
Service charges	35	516,028,176	429,527,465
Total Revenue		**2,218,498,212**	**1,958,680,985**
Expenditure			
Bad debts and provision for bad debts	36	(153,159,547)	(82,710,130)
Bulk purchases	37	(250,218,544)	(187,207,256)
Contracted services	38	(97,411,890)	(114,119,000)
Depreciation and amortisation	39	(135,527,740)	(125,349,838)
Employee related costs	40	(749,398,859)	(693,059,728)
Finance costs	41	(34,131,766)	(41,039,433)
General expenses	42	(244,148,572)	(272,390,381)
Grants and subsidies paid	43	(26,338,886)	(42,000,502)
Remuneration of councillors	44	(22,625,638)	(21,904,381)
Repairs and maintenance		(94,332,877)	(93,725,752)
Total Expenditure		**(1,807,294,319)**	**(1,673,506,401)**
(Profit) / Loss on foreign exchange transactions		-	(167,058)
Surplus / (Deficit) for the year		**411,203,893**	**285,007,526**

Statement of Changes in Net Assets

	Housing development fund reserve	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
Balance at 01 July 2009	**21,376,064**	**584,022,037**	**6,160**	**73,132,814**	**13,654,505**	**692,191,580**	**1,628,382,589**	**2,320,574,169**
Changes in net assets								
Fair value gains (losses)	-	-	1,672	-	-	1,672	-	1,672
Transfers	(10,173,116)	-	-	-	-	(10,173,116)	10,173,116	-
Contributions introduced	-	-	-	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
Net income (losses) recognised directly in net assets	(10,173,116)	-	1,672	1,473,896	658,772	(8,038,776)	8,154,732	115,956
Surplus for the year	-	-	-	-	-	-	285,007,526	285,007,526
Total recognised income and expenses for the year	(10,173,116)	-	1,672	1,473,896	658,772	(8,038,776)	293,162,258	285,123,482
Total changes	(10,173,116)	-	1,672	1,473,896	658,772	(8,038,776)	293,162,258	285,123,482
Balance at 01 July 2010	**11,202,948**	**584,022,037**	**7,832**	**74,606,710**	**14,313,277**	**684,152,804**	**1,921,697,876**	**2,605,850,680**
Changes in net assets								
Fair value gains (losses)	-	-	1,501	-	-	1,501	-	1,501
Net income (losses) recognised directly in net assets	-	-	1,501	-	-	1,501	-	1,501
Surplus for the year	-	-	-	-	-	-	411,203,893	411,203,893
Total recognised income and expenses for the year	-	-	1,501	-	-	1,501	411,203,893	411,205,394
Contributions introduced	-	5,599,949	-	2,514,662	2,534,227	10,648,838	5,048,889	15,697,727
Insurance claims processed	-	-	-	(1,031,205)	(5,853,301)	(6,884,506)	(6,884,303)	(13,768,809)
Transfers	(7,552,522)	-	-	-	-	(7,552,522)	(7,552,522)	(15,105,044)
Business combinations	-	-	-	-	-	-	(167,687,560)	(167,687,560)
Total changes	(7,552,522)	5,599,949	1,501	1,483,457	(3,319,074)	(3,786,689)	234,128,397	230,341,708
Balance at 30 June 2011	**3,650,426**	**589,621,986**	**9,333**	**76,090,167**	**10,994,203**	**680,366,115**	**2,155,826,273**	**2,836,192,388**
Notes	23	24	25	26	27			

Cash Flow Statement

	Notes	2011 R	2010 R
Cash flows from operating activities			
Receipts			
Taxation		-	30,985,715
Cash receipts from customers		1,099,500,460	687,970,550
Grants		844,223,445	663,690,774
Interest received		149,292,970	149,617,341
Other receipts		199,880,942	145,647,028
		2,292,897,817	**1,677,911,408**
Payments			
Employee costs		(446,822,752)	(682,241,154)
Suppliers		(441,963,311)	(219,744,828)
Other payments		(1,154,190,418)	(290,324,661)
Inventories		2,061,166	(5,033,240)
		(2,040,915,315)	(1,197,343,883)
Net cash flows from operating activities	45	**251,982,502**	**480,567,525**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(47,365,474)	(600,720,307)
Proceeds from sale of property, plant and equipment	10	-	(455,090)
Increase in non-current receivables		(34,451,331)	(75,844,835)
Interest income		1,969,513	8,568,971
Finance costs		(953)	-
Net cash flows from investing activities		**(79,848,245)**	**(668,451,261)**
Cash flows from financing activities			
Repayment of loans		9,853,514	(1,785,058)
Movement in other liability - VAT		-	31,105,226
Finance lease payments		1,789,826	(572,114)
Increase in consumer deposits		2,356,934	1,217,359
Finance costs		(1,344,249)	(2,652,283)
Net cash flows from financing activities		**12,656,025**	**27,313,130**
Net increase/(decrease) in cash and cash equivalents		**184,790,282**	**(191,023,740)**
Cash and cash equivalents at the beginning of the year		46,885,251	237,908,991
Cash and cash equivalents at the end of the year	9	**231,675,533**	**46,885,251**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables and loans and receivables

The entity assesses its trade receivables 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 surplus 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 and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available-for-sale financial assets

The entity 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 entity evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational 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 have made estimates of the selling price and direct cost to sell on certain inventory items. The write down 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 entity is the current bid price.

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 22 - 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 the present value where the effect is material.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The entity's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement 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 or income include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity 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 and medical aid obligations. In determining the appropriate discount rate, the entity 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 21.

Effective interest rate and deferred payment terms

The entity used the prime interest 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 entity; 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.

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 assets 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.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.2 Property, plant and equipment (continued)

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30
Furniture and fixtures	7-10
Other vehicles	5-7
Office equipment	3-5
Community / Recreational facilities	20-30
Other property, plant and equipment	3-5
Finance lease - Equipment	5
Roads and storm water	15-30
Finance leases - 3 G cards	3

Accounting Policies

1.2 Property, plant and equipment (continued)

Finance leases - Cell phones	2
Security	3-5
Specialised vehicles	10-15
Quarries	20-30
Landfill sites	15
Water and sewerage network	15-20
Housing	30
Spesialised plant and equipment	3-5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.3 Site restoration and dismantling cost

The entity 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 an entity 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 (b), 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 entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it 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 an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity 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 entity; 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.

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

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

1.4 Intangible assets (continued)

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. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

Item	Useful life
Computer software, other	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 surplus or deficit when the asset is derecognised.

1.5 Heritage assets

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an entity is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

1.5 Heritage assets (continued)

Recognition

The entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.6 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment in the separate financial statements.

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 entity; 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.

Accounting Policies

1.7 Financial instruments

Classification

The entity 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 entity becomes a party to the contractual provisions of the instruments.

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

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

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

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

Subsequent measurement

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.

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

Available-for-sale financial asset
Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments 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.

The fair values of quoted investments, such as available for sale investments are based on current bid prices.

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

Accounting Policies

1.7 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the entity 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 entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

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

Impairment losses are recognised in surplus or deficit.

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

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

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

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

Financial instruments designated as available-for-sale

Fair value adjustments on available-for-sale financial instruments are recognised in the Mark-to-market reserve.

Loans to economic entities

These include loans to and from controlling entities, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, 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.

Accounting Policies

1.7 Financial instruments (continued)

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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 entity's accounting policy for borrowing costs.

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.

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

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 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.

Impairment of financial assets

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

Assets are carried at amortised cost.

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

Accounting Policies

1.8 Leases

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

Finance leases - lessee

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as 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.

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

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

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

Operating leases - lessee

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

1.9 (Increase) / decrease inventory

(Increase) / decrease inventory are initially measured at cost except where (increase) / decrease inventory are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently (increase) / decrease inventory are measured at the lower of cost and net realisable value.

(Increase) / decrease inventory 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 entity incurs to acquire the asset on the reporting date.

The cost of (increase) / decrease inventory comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the (increase) / decrease inventory to their present location and condition.

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

1.9 (Increase) / decrease inventory (continued)

When (increase) / decrease inventory are sold, the carrying amounts of those (increase) / decrease inventory 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 (increase) / decrease inventory to net realisable value and all losses of (increase) / decrease inventory are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of (increase) / decrease inventory, arising from an increase in net realisable value, are recognised as a reduction in the amount of (increase) / decrease inventory recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity 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.

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).

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.

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 its 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 entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test an intangible asset with an indefinite useful life or an 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 entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

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.

1.10 Impairment of cash-generating assets (continued)

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.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the 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 entity 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 entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- 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 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.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The entity 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.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity 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.

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 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.

1.11 Impairment of non-cash-generating assets (continued)

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 entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Identification

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

The entity 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 entity 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 an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an 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 entity would not replace or reproduce the asset with a like 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 an asset to its pre-impaired level. The 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.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

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.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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 entity recognises a liability only to the extent that is a requirement in the Standards 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 entity assess 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 entity 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.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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.

1.12 Employee benefits

Short-term employee benefits

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

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 entity'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.

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.

Actuarial gains or losses are recognised immediately in the statement of financial performance.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity 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 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.

1.13 Provisions and contingencies

Provisions are recognised when:

- the entity 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 reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity 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.

Accounting Policies

1.13 Provisions and contingencies (continued)

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 an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

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 amounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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.

1.14 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.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

An exchange transaction is one in which the entity 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 entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the v 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 entity; 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 entity;
- 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 .

Interest

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 entity, and
- The amount of the revenue can be measured reliably.

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

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

1.15 Revenue from non-exchange transactions

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

Revenue 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.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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.

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 entity;
- 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.

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 entity; and
- the amount of the revenue can be measured reliably.

The entity 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 entity; 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.

Accounting Policies

1.15 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 entity,
- 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 entity 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 entity;
- 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.

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

1.16 Investment income

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

1.17 Borrowing costs

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

The capitalisation of borrowing costs commences when 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.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.10 and 1.11. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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.

Accounting Policies

1.17 Borrowing costs (continued)

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

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 as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

1.22 Use of estimates

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

1.23 Presentation of currency

These annual financial statements are presented in South African Rand.

1.24 Offsetting

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

1.25 Housing development fund

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

1.26 Internal reserves

Self insurance reserve

The entity has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims, which are not insured externally. The balance of the Self-Insurance Reserve is determined based on the insurance risk carried by the entity, which is calculated by the council's insurance broker and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund should be invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

Compensation for occupational injuries and diseases (COID) reserve

The Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993) is to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is determined by the Compensation Commissioner. The entity is an exempt employer in terms of Section 84 (1) (a)(ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status the entity is mandated to establish its own fund and administers this fund in terms of the COID Act.

Amounts are transferred to the COID reserve from the accumulated surplus/(deficit) based on the amounts as approved in the annual budget and determined by the Compensation Commissioner 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).

1.27 Revaluation reserve

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 the accumulated surplus/(deficit).

1.28 Mark-to-market reserve

This reserve comprises of all fair value adjustments on available-for-sale financial instruments (unlisted shares). When an asset or liability is derecognised, the fair value adjustments relating to that asset or liability is transferred to surplus/ (deficit).

1.29 Investments

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

Accounting Policies

1.29 Investments (continued)

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the entity has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.30 Conditional grants and receipts

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

1.31 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The entity operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.32 Budget information

The entity are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity 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 in the annual financial statements.

Comparative information is not required.

Accounting Policies

1.33 Related parties

The entity 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 entity. We regard all individuals from the level of Accounting Officer 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 entity.

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

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

GRAP 103: Heritage Assets

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

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

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

The carrying amount of a heritage asset should be derecognised:

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

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

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

The entity has adopted the standard for the first time in the 2011 annual financial statements.

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

3.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

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

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

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

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:
- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:
- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:
- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:
- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

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

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

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

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

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

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

4. (Increase) / decrease inventory

Consumable stores	3,322,080	4,273,803
Fuel - Petrol and Diesel	894,610	1,172,074
Water in pipes	286,708	286,708
Water in reservoirs	880,339	880,339
Water maintenance materials	3,993,600	4,825,580
	9,377,337	**11,438,504**

Inventory recognised as an expense

Inventory expense - refer to note 41	3,023,386	5,355,570

5. Non-current receivables

Available-for-sale		
2535 Unlisted shares - OVK Limited	11,868	10,367
Loans and receivables		
Centlec Pty Ltd - Advances	149,779,678	163,617,713
Centlec Pty Ltd - Shareholders loan	676,453,637	657,303,374
Vehicle loans	950,255	975,093
Study loans	49,599	49,599
Erven loans	18,545,375	17,602,970
Housing selling scheme loans	45,861,900	42,731,900
	891,640,444	882,280,649
Impairment - vehicle loans	(950,255)	(889,596)
Impairment - study loans	(49,599)	(49,599)
Impairment - erven loans	(8,334,174)	(8,334,174)
Impairment - housing selling scheme loans	(31,326,876)	(31,326,876)
	832,979,273	**841,680,404**
Total other financial assets	**832,991,141**	**841,690,771**

Notes to the Annual Financial Statements

	2011 R	2010 R

5. Non-current receivables (continued)

Non-current assets		
Available-for-sale	11,868	10,367
Loans and receivables	831,024,356	827,901,402
	831,036,224	**827,911,769**
Current assets		
Loans and receivables	19,954,917	13,779,002
	850,991,141	**841,690,771**

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

Fair value hierarchy of available-for-sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly as prices or indirectly derived from prices.

Level 3 applies inputs which are not based on observable market data.

Level 1		
Class 1 - Unlisted shares	11,868	10,367

Renegotiated terms

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

None of the loans and receivables were pledged as security for any financial liabilities and no securities are held for any of the non-current loans and receivables.

Notes to the Annual Financial Statements

	2011 R	2010 R

5. Non-current receivables (continued)

Reconciliation for impairment

Impairment for vehicles loans		
Opening balance	889,596	648,629
Impairment for the year	60,659	240,967
	950,255	**889,596**
Impairment for study loans		
Opening balance	49,599	59,599
Impairment for the year	-	(10,000)
	49,599	**49,599**
Impairment for erven loans		
Opening balance	8,334,174	6,280,082
Impairment for the year	535,969	2,054,092
	8,870,143	**8,334,174**
Impairment for housing selling scheme loans		
Opening balance	31,326,876	37,475,309
Impairment for the year	11,851,101	(6,148,433)
	43,177,977	**31,326,876**

Credit quality of loans and receivables

The credit quality of loans and receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings 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 quality of the receivables' long term portion.

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

Details of loans and receivables

Vehicle loans
Permanent staff obtained loans at 8.5.% interest per annum repayable over a period of 3 to 6 years. Other staff loans bear interest of prime plus 1% and are 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 no further loans are granted.

Study loans
Staff members qualified for interest free study loans under the approved study scheme of the entity. 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 entity. These loans are repaid on a monthly basis. No further loans are granted.

Housing selling scheme loans
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.

Notes to the Annual Financial Statements

	2011 R	2010 R

6. Other receivables from exchange transactions

Deferred lease income	47,054,521	44,433,162
Interest on investments	597,953	303,679
Outstanding health claims	-	1,537,952
Staff leave day's receivable	1,555,514	781,575
Sundry receivables	44,281,627	65,405,724
Impairment - sundry receivables	(34,646,856)	(31,636,314)
	58,842,759	**80,825,778**

Other receivables pledged as security

Not any portion of other receivables from exchange transactions was pledged as security for any financial liabilities.

Credit quality of other receivables

The credit quality of other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

The credit quality of other receivables were evaluated in terms of the risk group and ageing of the individual receivable account.

Reconciliation of provision for impairment of other receivables

Opening balance	31,636,314	28,345,488
Impairment for the year	3,010,542	3,290,826
	34,646,856	**31,636,314**

7. Other receivables from non-exchange transactions

Conditional grants	-	274,867
Insurance claims	79,567	120,935
	79,567	**395,802**

Other receivables from non-exchange transactions pledged as security

Not any portion of other receivables from non-exchange transactions were pledged as security for any financial liabilities.

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 or to historical information about counterparty default rates.

The credit quality of other receivables were evaluated in terms of the risk group and ageing of the individual receivable account.

8. Consumer receivables from exchange transactions

Gross balances		
Rates	299,966,920	320,614,002
Electricity	-	2,070,612
Water	492,078,280	411,709,499
Sewerage	151,539,834	182,268,000
Housing rental	19,456,932	17,379,847
Unallocated deposits	220,252	(11,546,808)
	963,262,218	**922,495,152**

Notes to the Annual Financial Statements

	2011 R	2010 R

8. Consumer receivables from exchange transactions (continued)

	2011 R	2010 R
Less: Provision for debt impairment		
Rates	(248,573,335)	(754,265,006)
Housing rental	(18,539,788)	(15,350,848)
Sewerage	(125,577,062)	-
Water	(391,025,657)	-
	(783,715,842)	**(769,615,854)**
Net balance		
Rates	51,393,585	(433,651,004)
Electricity	-	2,070,612
Water	101,052,623	411,709,499
Sewerage	25,962,772	182,268,000
Housing rental	917,144	2,028,999
Unallocated deposits	220,252	(11,546,808)
	179,546,376	**152,879,298**
Rates - ageing		
Current (0 -30 days)	39,361,328	25,189,041
31 - 60 days	9,234,848	11,516,104
61 - 90 days	10,046,558	9,885,187
90+ days	241,324,186	274,023,670
	299,966,920	**320,614,002**
Electricity - ageing		
90+ days	-	2,070,612
Water - ageing		
Current (0 -30 days)	69,810,359	47,378,897
31 - 60 days	22,360,671	26,295,398
61 - 90 days	17,155,373	17,721,772
90+ days	362,542,890	489,522,537
Reclassifying journal on understatement of water	20,208,987	13,058,895
	492,078,280	**593,977,499**
Sewerage - ageing		
Current (0 -30 days)	16,502,520	-
31 - 60 days	4,295,220	-
61 - 90 days	4,420,961	-
90+ days	126,321,133	182,268,000
	151,539,834	**182,268,000**
Housing rental - ageing		
Current (0 -30 days)	336,159	414,132
31 - 60 days	260,577	236,032
61 - 90 days	265,483	221,072
90+ days	18,594,713	16,508,611
	19,456,932	**17,379,847**
Unallocated deposits		
90+ days	220,252	(11,546,808)

Notes to the Annual Financial Statements

	2011 R	2010 R

8. Consumer receivables from exchange transactions (continued)

Summary of debtors by customer classification

	2011 R	2010 R
Residential and sundry		
Current (0 -30 days)	52,894,359	46,670,418
31 - 60 days	32,226,321	23,501,775
61 - 90 days	26,850,351	18,550,975
90+ days	665,124,158	618,776,250
	777,095,189	707,499,418
Less: Provision for debt impairment	(687,166,203)	(653,253,099)
	89,928,986	**54,246,319**
Business/Commercial and municipal		
Current (0 -30 days)	29,091,335	22,014,496
31 - 60 days	9,920,113	11,381,651
61 - 90 days	7,826,108	7,059,434
90+ days	104,897,742	83,153,436
	151,735,298	123,609,017
Less: Provision for debt impairment	(56,475,065)	(55,176,569)
	95,260,233	**68,432,448**
Government		
Current (0 -30 days)	3,132,071	3,859,581
31 - 60 days	2,050,563	2,925,624
61 - 90 days	1,805,536	1,995,407
90+ days	46,117,599	62,798,543
	53,105,769	71,579,155
Less: Provision for debt impairment	40,074,573	(45,835,339)
	93,180,342	**25,743,816**
Total		
Current (0 -30 days)	85,117,765	72,544,495
31 - 60 days	44,196,998	37,809,050
61 - 90 days	36,481,995	27,605,816
91 - 120 days	816,139,499	780,079,077
Reclassifying journal on understatement of water	20,208,987	13,058,895
	1,002,145,244	931,097,333
Less: Impairment	(783,715,842)	(769,615,854)
Unallocated deposits	220,252	(11,546,808)
Electricity	(50,890)	2,944,627
Transferred to other receivables from exchange transactions	(1,000,121)	-
Transferred to current portion of non-current receivables	(38,052,267)	-
	179,546,376	**152,879,298**
Less: Impairment		
90+ days	(783,715,842)	(769,615,854)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(769,615,854)	(686,370,934)
Contribution to impairment for the year	(14,099,988)	(83,244,920)
	(783,715,842)	**(769,615,854)**

Notes to the Annual Financial Statements

	2011 R	2010 R

8. Consumer receivables from exchange transactions (continued)

Consumer debtors pledged as security

Not any portion of consumer receivables were pledged as security for any financial liabilities.

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

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 165,796,758 (2010: R 137,959,361) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	85,117,765	72,544,495
2 months past due	44,196,998	37,809,050
3 months past due	36,481,995	27,605,816

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R 816,139,499 (2010: R 769,615,854) were impaired and provided for.

The amount of the provision was R 783,715,842 as of 30 June 2011 (2010: R 769,615,854).

The ageing of these loans is as follows:

Over 3 months	816,139,499	769,615,854

Reconciliation of provision for impairment of consumer debtors

Opening balance	(769,615,854)	(686,370,934)
Impairment for the year	(14,099,988)	(83,244,920)
	(783,715,842)	**(769,615,854)**

Notes to the Annual Financial Statements

		2011 R	2010 R

9. Cash and cash equivalents

Cash and cash equivalents consist of:

		2011 R	2010 R
Cash on hand		54,869	54,869
Positive bank balances		32,725,988	20,187,493
Held-to-maturity investments maturing within 1- 3 months from the reporting date		198,894,676	26,642,889
		231,675,533	**46,885,251**

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for the COID reserve	27	10,994,203	10,318,261

The term deposit investment is pledged as security to the Compensation Commissioner of the Workmen's Compensation Fund to guarantee the payment of claims in respect of injuries while on duty.

The entity had the following bank accounts

Account number and description	Bank statement balances			Cash book balances		
	30 June 2011	**30 June 2010**	**30 June 2009**	**30 June 2011**	**30 June 2010**	**30 June 2009**
ABSA - Primary current account - 470 000 465	25,572,621	9,713,167	79,463,381	28,426,476	10,453,390	80,361,320
ABSA - Fresh produce market - 470 001 348	2,697,541	3,382,869	3,093,304	2,697,541	3,382,869	3,093,304
ABSA - 2010 World cup - 406 787 886	-	5,311,349	57,566,021	-	5,311,349	57,566,021
ABSA - Direct deposits banktel - 470 001 380	-	-	-	1,601,971	1,039,885	-
Total	**28,270,162**	**18,407,385**	**140,122,706**	**32,725,988**	**20,187,493**	**141,020,645**

10. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Finance leases capitalised	-	-	-	(1,164,256)	1,664,375	500,119
Property plant and equipment	4,086,105,230	(1,111,359,977)	2,974,745,253	4,431,177,068	(1,494,454,881)	2,936,722,187
Total	**4,086,105,230**	**(1,111,359,977)**	**2,974,745,253**	**4,430,012,812**	**(1,492,790,506)**	**2,937,222,306**

Notes to the Annual Financial Statements

	2011 R	2010 R

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Finance leases capitalised	500,119	-	-	(500,119)	-	-
Property plant and equipment	2,936,722,187	421,723,619	(1,484,900)	(779,933,566)	397,717,913	2,974,745,253
	2,937,222,306	**421,723,619**	**(1,484,900)**	**(780,433,685)**	**397,717,913**	**2,974,745,253**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Finance leases capitalised	2,706,185,976	(638,256)	-	-	(2,705,047,601)	500,119
Property plant and equipment	(246,462,392)	601,358,563	455,090	173,145	2,581,197,781	2,936,722,187
	2,459,723,584	**600,720,307**	**455,090**	**173,145**	**(123,849,820)**	**2,937,222,306**

Assets subject to finance lease (Net carrying amount)

	2011	2010
Finance leases capitalised	-	500,119
Property plant and equipment	3,700,579	3,269,437
	3,700,579	**3,769,556**

11. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	14,278,654	(1,627,836)	12,650,818	17,428,471	(14,620,176)	2,808,295

Reconciliation of intangible assets - 2011

	Opening balance	Transfers	Amortisation	Total
Computer software, other	2,808,295	14,278,654	(4,436,131)	12,650,818

Reconciliation of intangible assets - 2010

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

Notes to the Annual Financial Statements

	2011 R	2010 R

12. Investments in controlled entities

Name of entity	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Centlec Pty Ltd	Mangaung Metro	100 %	100 %	100	100

The carrying amounts of controlled entities are shown net of impairment losses.

A company, Centlec Pty Ltd, of which Mangaung Metro is the sole shareholder, was formed to take over all activities in respect of the supply of electricity for their own account.

13. Financial assets by category

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

2011

	Loans and receivables	Available-for-sale	2011 Total
Cash and cash equivalents	231,675,533	-	231,675,533
Consumer receivables from exchange transactions	179,546,376	-	179,546,376
Current portion of non-current receivables	19,954,917	-	19,954,917
Non-current receivables	831,024,356	11,868	831,036,224
Other receivables from exchange transaction	58,842,759	-	58,842,759
Other receivables from non-exchange transactions	79,567	-	79,567
	1,321,123,508	**11,868**	**1,321,135,376**

2010

	Loans and receivables	Available-for-sale	2010 Total
Cash and cash equivalents	46,885,251	-	46,885,251
Consumer receivables from exchange transactions	152,879,298	-	152,879,298
Current portion of non-current receivables	13,779,002	-	13,779,002
Non-current receivables	827,901,402	10,367	827,911,769
Other receivables from exchange transaction	80,825,778	-	80,825,778
Other receivables from non-exchange transactions	395,802	-	395,802
	1,122,666,533	**10,367**	**1,122,676,900**

14. Non-current borrowings

	2011	2010
Held at amortised cost		
DBSA Bloemfontein - Sewer 8001/104	4,421,980	4,372,878
DBSA Bloemfontein - Water 8001/104	4,038,737	5,799,214
DBSA Mangaung - 1529/102	2,184,181	1,976,260
DBSA - FS1034	11,702,258	345,290
	22,347,156	**12,493,642**

	2011	2010
Non-current liabilities		
At amortised cost	20,162,975	10,517,382

Notes to the Annual Financial Statements

	2011 R	2010 R

14. Non-current borrowings (continued)

Current liabilities		
At amortised cost	2,184,181	1,976,260
	22,347,156	**12,493,642**

All loans are from The Development Bank of South Africa and repayments are made either monthly or on a six monthly basis. The last loan will be redeemed at 30 March 2026 and the loans bear interest between 6% and 14%.

The entity did not default on any of the non-current borrowings, whether it be on the capital or the interest portions and none of the terms attached to the non-current borrowings were renegotiated.

Refer to Appendix A for more details.

15. Finance lease liability

Minimum lease payments due		
- within one year	1,176,310	1,896,184
- in second to fifth year inclusive	2,987,468	747,062
	4,163,778	2,643,246
less: future finance charges	(298,001)	(269,294)
Present value of minimum lease payments	**3,865,777**	**2,373,952**
Present value of minimum lease payments due		
- within one year	1,010,132	1,729,914
- in second to fifth year inclusive	3,153,646	644,038
	4,163,778	**2,373,952**
Non-current liabilities	2,987,468	644,038
Current liabilities	1,176,310	1,729,914
	4,163,778	**2,373,952**

The entity leases various equipment and 3 G cards under finance leases. The maximum lease term is 5 years and the average borrowing rate is between 9% and 15%. Some leases have fixed repayment terms and others 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 did not default on any of the finance lease obligations, whether it be on the capital or the interest portion.

The entity cancelled all existing cell phone finance leases in the current year.

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

Market risk

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 55.

The fair value of finance lease liabilities approximates their carrying amounts.

Notes to the Annual Financial Statements

	2011 R	2010 R

16. Payables from exchange transactions

	2011 R	2010 R
Centlec Pty Ltd - Intercompany loan	354,277,059	314,627,575
Deferred interest	6,974,177	6,583,496
Deferred lease expenditure	257,141	124,783
Other payables	2,876,811	3,285,388
Payments received in advanced	132,080,943	83,763,576
Retention's	21,281,682	25,132,321
Staff bonuses - 13 th cheque	16,456,178	14,416,172
Staff leave day's accrual	50,500,417	47,219,380
Trade payables	103,610,597	185,523,597
	688,315,005	**680,676,288**

The entity defaulted on the payment of suppliers within 30 days. The average term of payment of suppliers for the current year was 40 days (2010: 40 days).

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

17. Payables from non-exchange transactions

	2011 R	2010 R
Deposits	451,156	441,127
Other payables	2,107,219	3,219,497
	2,558,375	**3,660,624**

18. Consumer deposits

	2011 R	2010 R
Accrued interest payable	2,702,170	942,630
Water	24,761,896	24,164,502
	27,464,066	**25,107,132**

Included in deposits is an accrual of interest at an effective interest rate of 4% per annum (2010: 4%), which is paid to consumers when deposits are refunded.

Guarantees in lieu of consumer deposits amounted to R6,013,517 (2010: R5,659,252).

Notes to the Annual Financial Statements

	2011 R	2010 R

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

2010 World cup - Host city operation grant	-	19,000,000
2010 World cup - Stadia provincial grant	7,842,755	16,622,725
COGTA - Fire suppression grant	82,817	82,817
DBSA - Capacity building programme grant	234,104	234,104
DWAF - Water services operating and transfer subsidy grant	-	2,025,822
Financial management grant	12,623	61,718
Local government and housing grant - Infrastructure Graslands area	3,965,043	3,965,043
Local government and housing grant - White city hostels	42,308	1,215,190
Motheo - Contribution environmental health grant	10,680,301	13,786,458
Motheo - Tourism grant	10,750	-
Motheo - Upgrading of roads grant	1,259,252	-
Municipal accreditation project funding - Housing grant	3,422,275	3,422,331
Municipal infrastructure grant	62,931,480	38,703,738
Municipal systems improvement grant	-	685,145
Provincial grant - Batho roads project	26,423,367	-
Provincial grant - CCTV	130,851	130,851
Provincial grant - Du Plessis Muller intersection	554,640	578,732
Provincial grant - Grassland area	4,500,000	4,500,000
Provincial grant - Hlasela project - Batho car wash	150,000	150,000
Provincial grant - Hlasela project - Re Ba I Kemetseng Bomme	100,000	100,000
Provincial grant - Hlasela project - Iphahamilseng centre	3,703	3,703
Provincial grant - Hlasela project - Lehlohonolo music group	-	7,200
Provincial grant - Land use scheme	-	748,686
Provincial grant - Planning and surveying	493,144	574,210
Provincial grant - Township establishment - Caleb Motshabi	147,239	1,343,791
Provincial grant - Upgrade housing in Batho	1,749,275	2,083,399
Public transport infrastructure and systems fund grant	100,115,219	121,120,549
Restructuring grant	-	123,685
Urban renewal grant	280,553	568,879
Urban settlement development grant	6,505,054	-
	231,636,753	**231,838,776**

Refer to Appendix F for the 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.

20. VAT payable

VAT payable	78,619,536	87,095,362

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

The VAT account of the entity is currently under investigation by SARS.

21. Defined benefit plan obligation

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 entity 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 Entity's Conditions of Service.

Notes to the Annual Financial Statements

	2011 R	2010 R

21. Defined benefit plan obligation (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the unfunded defined benefit obligation	343,910,210	348,224,000
Present value of the defined benefit obligation	2,659,639	2,693,000
	346,569,849	**350,917,000**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	350,917,000	297,121,000
Benefits paid	(6,319,151)	(5,894,000)
Net expense recognised in the statement of financial performance	1,972,000	59,690,000
	346,569,849	**350,917,000**

Net expense recognised in the statement of financial performance

Current service cost	18,346,000	18,556,000
Interest cost	28,226,000	29,709,000
Actuarial (gains) losses included under employee cost	(44,600,000)	11,425,000
	1,972,000	**59,690,000**

Key assumptions used

Assumptions used on the last valuation - 30 June 2010:

Discount rates used	9.50 %	9.50 %
Expected increase in healthcare costs	7.75 %	7.75 %
Expected increase in salaries	13.00 %	13.00 %
Expected pension increases	5.75 %	5.75 %
Inflation rate	5.80 %	5.80 %
Medical cost trend rates	7.00 %	7.00 %
Membership discontinued at retirement or death-in-service	10.00 %	10.00 %
Expected retirement age (in years)	55	55

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.

22. Non-current provisions

Reconciliation of non-current provisions - 2011

	Opening Balance	Movement	Total
Rehabilitation of landfill sites	69,629,772	5,222,233	74,852,005
Rehabilitation of quarry sites	4,655,906	534,067	5,189,973
	74,285,678	**5,756,300**	**80,041,978**

Reconciliation of non-current provisions - 2010

	Opening Balance	Movement	Total
Rehabilitation of landfill sites	65,688,464	3,941,308	69,629,772
Rehabilitation of quarry sites	4,171,411	484,495	4,655,906
	69,859,875	**4,425,803**	**74,285,678**

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 Northern landfill site
- Bloemfontein Southern landfill site
- Thaba Nchu 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.

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 inflation rate parameters. A 7.5% (2010: 6%) increase was applied for the current reporting period.

Notes to the Annual Financial Statements

	2011 R	2010 R

22. Non-current provisions (continued)

Rehabilitation of quarry sites

In terms of the Mineral and Petroleum Resources Development Act, 28 of 2002, it is required from the entity 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 rate and high usage and amounts to 10%.

The provision was determined by an independent expert and approximates the discounted expected future cash flows using reasonable estimation techniques.

Quarries consist of:
- Petra Quarry
- Cecilia Quarry
- Sunnyside Quarry
- Thaba Nchu Quarries
- Botshabelo Quarries

The rehabilitation of quarries is expected to be over a period of 20-30 years, being the estimated useful lives of the quarries. No uncertainties were used in the calculation of the rehabilitation cost.

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 the reporting date.

23. Housing development fund reserve

	2011	2010
Opening balance	11,202,948	21,376,064
Transfers	(7,552,522)	(10,173,116)
	3,650,426	**11,202,948**

The housing development fund is represented by the following assets and liabilities

	Note	2011	2010
Housing selling scheme loans	5	14,535,024	11,405,024
Housing rental receivables	8	917,144	2,028,999
Assets		**15,452,168**	**13,434,023**
Assets excess/(loss) over reserve fund		11,801,742	2,231,075
Total housing development fund assets and liabilities		**3,650,426**	**11,202,948**

The housing development fund was established in terms of the Housing Act of 1997. Loans from national and provincial government used to finance housing selling schemes undertaken by the entity 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 Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the fund. Monies standing to the credit of the fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Notes to the Annual Financial Statements

	2011 R	2010 R

24. Revaluation reserve

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 the accumulated surplus/(deficit).

	2011 R	2010 R
Opening balance	584,022,037	584,022,037

25. Mark-to-market reserve

This reserve comprises of all fair value adjustments on available-for-sale financial instruments (OVK Limited unlisted shares). When an asset or liability is derecognised, the fair value adjustments relating to that asset or liability is transferred to Mark-to-market reserve.

	2011 R	2010 R
Available-for-sale financial instruments	7,832	6,160
Asset revaluation	1,501	1,672
	9,333	**7,832**

26. Self-insurance reserve

The entity has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims, which are not insured externally.

The balance of the Self-Insurance Reserve is determined based on the insurance risk carried by the entity, which is calculated by the council's insurance broker and is reinstated or increased by a transfer from the accumulated surplus/(deficit).

The balance of the self-insurance fund should be invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus/(deficit).

	2011 R	2010 R
Opening balance	74,606,710	73,132,814
Contributions	2,514,662	2,297,910
Insurance claims processed	(1,031,205)	(824,014)
	76,090,167	**74,606,710**

27. COID reserve

The Compensation for Occupational Injuries and Diseases Act 130 of 1993 is to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is determined by the Compensation Commissioner. The entity is an exempt employer in terms of Section 84 (1) (a)(ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status the entity is mandated to establish its own fund and administers this fund in terms of the COID Act.

Contributions are transferred to the COID reserve from the accumulated surplus/(deficit) based on the amounts as approved in the annual budget and determined by the Compensation Commissioner as well as additional amounts deemed necessary to ensure that the balance of the reserve fund 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).

The term deposit investment is pledged as security to the Compensation Commissioner of the Workmen's Compensation Fund to guarantee the payment of claims in respect of injuries while on duty. Refer to note 9

Notes to the Annual Financial Statements

	2011 R	2010 R

27. COID reserve (continued)

Opening balance	14,313,277	13,654,505
Contributions	2,534,227	2,346,900
Insurance claims processed	(5,853,301)	(1,688,128)
	10,994,203	**14,313,277**

28. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	2011 Total
Consumer deposits	27,464,066	27,464,066
Current portion of finance lease liabilities	1,176,310	1,176,310
Current portion of non-current borrowings	2,184,181	2,184,181
Finance lease liabilities	2,987,468	2,987,468
Non-current borrowings	20,162,975	20,162,975
Non-current provisions	80,041,978	80,041,978
Payables from exchange transactions	688,315,005	688,315,005
Payables from non-exchange transactions	2,558,375	2,558,375
Unspent conditional grants	231,636,753	231,636,753
VAT payable	78,619,536	78,619,536
	1,135,146,647	**1,135,146,647**

2010

	Financial liabilities at amortised cost	2010 Total
Consumer deposits	25,107,132	25,107,132
Current portion of finance lease liabilities	1,729,914	1,729,914
Current portion of non-current borrowings	1,976,260	1,976,260
Finance lease liabilities	644,038	644,038
Non-current borrowings	10,517,382	10,517,382
Non-current provisions	74,285,678	74,285,678
Payables from exchange transactions	680,676,288	680,676,288
Payables from non-exchange transactions	3,660,624	3,660,624
Unspent conditional grants	231,838,776	231,838,776
VAT payable	87,095,362	87,095,362
	1,117,531,454	**1,117,531,454**

Notes to the Annual Financial Statements

	2011 R	2010 R
29. Revenue		
Fines	1,639,801	1,385,004
Government grants and subsidies	881,341,483	853,664,974
Income from agency services	116,010,183	107,165,586
Licences and permits	203,192	199,304
Property rates	405,477,227	342,459,519
Rental of facilities and equipment	18,030,068	19,589,794
Service charges	516,028,176	429,527,465
	1,938,730,130	**1,753,991,646**
The amount included in revenue arising from exchanges of goods or services are as follows:		
Income from agency services	116,010,183	107,165,586
Licences and permits	203,192	199,304
Rental of facilities and equipment	18,030,068	19,589,794
Service charges	516,028,176	429,527,465
	650,271,619	**556,482,149**
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Fines	1,639,801	1,385,004
Property rates	405,477,227	342,459,519
Transfer revenue		
Government grants and subsidies	881,341,483	853,664,974
	1,288,458,511	**1,197,509,497**

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies

2010 World cup - Host city operating grant	19,000,000	50,096,750
2010 World cup - Stadia development grant	-	36,390,066
2010 World cup - Stadia provincial grant	8,779,971	3,662,778
COGTA - Fire suppression grant	-	2,177,844
DBSA - 2010 World cup soccer grant	-	2,000,000
DWAF - Water services operating and transfer subsidy grant	2,025,823	7,377,042
Electricity demand side management grant	5,000,000	4,000,000
Equitable share	494,272,603	394,636,828
Finance management grant	1,238,094	1,058,911
Local government and housing - Grassland area	-	15,740,175
Local government and housing grant - White city hostels	1,172,882	7,947,832
Motheo - Contribution environmental health grant	9,195,407	2,854,853
Municipal accreditation project funding - Housing grant	55	102,247
Municipal infrastructure grant	145,501,257	56,476,133
Municipal systems improvement grant	1,435,145	580,221
National electrification program grant	13,000,000	1,227,000
Provincial grant - CCTV	-	19,914,149
Provincial grant - Du Plessis Muller intersection	24,093	2,421,268
Provincial grant - Hlasela project - Boikemesetso farming	-	200,000
Provincial grant - Hlasela project - Iphahamilseng centre	-	140,297
Provincial grant - Hlasela project - Lehlohonolo music group	7,200	-
Provincial grant - Hlasela project - Upgrading housing in Batho	5,911,183	5,916,601
Provincial grant - Hlasela project - Upgrading roads in Batho	334,124	30,000,000
Provincial grant - Land use scheme	748,686	646,359
Provincial grant - Planning and surveying	81,066	180,553
Provincial grant - Township establishment - Caleb Motshabi	1,196,552	656,209
Public transport infrastructure and systems fund grant	172,005,330	205,281,304
Restructuring grant	123,686	1,795,083
Urban renewal grant	288,326	(15,529)
	881,341,483	**853,464,974**

Equitable share

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

Electricity demand side management grant

Current-year receipts	5,000,000	4,000,000
Conditions met - transferred to Centlec Pty Ltd	5,000,000	(4,000,000)
	-	**-**

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

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.

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Financial management grant

	2011 R	2010 R
Balance unspent at beginning of year	61,718	370,629
Current-year receipts	1,188,999	750,000
Conditions met - transferred to revenue	(1,238,094)	(1,058,911)
	12,623	**61,718**

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

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

Municipal accreditation project funding - Housing grant

	2011 R	2010 R
Balance unspent at beginning of year	3,422,331	3,524,578
Conditions met - transferred to revenue	(56)	(102,247)
	3,422,275	**3,422,331**

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

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

DBSA 2010 World cup soccer grant

	2011 R	2010 R
Balance unspent at beginning of year	-	2,000,000
Conditions met - transferred to revenue	-	(2,000,000)
	-	**-**

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

The grant was allocated to the entity to fund the expenditure of the 2010 World cup.

Municipal systems improvement grant

	2011 R	2010 R
Balance unspent at beginning of year	685,145	765,366
Current-year receipts	750,000	500,000
Conditions met - transferred to revenue	(1,435,145)	(580,221)
	-	**685,145**

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

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 and the Municipal Systems Act.

2010 World cup - Stadia provincial grant

	2011 R	2010 R
Balance unspent at beginning of year	16,622,725	20,285,503
Conditions met - transferred to revenue	(8,779,970)	(3,662,778)
	7,842,755	**16,622,725**

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

The grant is allocated to the entity for the development and improvement of the sport stadium for the 2010 World cup.

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Provisional grant - Planning and surveying

	2011 R	2010 R
Balance unspent at beginning of year	574,210	754,763
Conditions met - transferred to revenue	(81,066)	(180,553)
	493,144	**574,210**

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

The purpose of the grant is to assist municipalities with the compilation of a town planning scheme to manage land development.

Motheo - Contribution environment health grant

	2011 R	2010 R
Balance unspent at beginning of year	13,786,458	10,141,311
Current-year receipts	6,089,250	6,500,000
Conditions met - transferred to revenue	(9,195,407)	(2,854,853)
	10,680,301	**13,786,458**

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

The purpose of the grant is to assist municipalities with the rendering of environmental health services.

Municipal infrastructure grant

	2011 R	2010 R
Balance unspent at beginning of year	38,703,738	18,305,870
Current-year receipts	169,729,000	76,874,000
Conditions met - transferred to revenue	(145,501,258)	(56,476,132)
	62,931,480	**38,703,738**

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

In terms of the MFMA Circular No.48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The entity reports at year-end all unspent conditional grants were committed to identifiable projects.

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 grants was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

Public transport infrastructure and systems fund grant

	2011 R	2010 R
Balance unspent at beginning of year	121,120,549	229,233,853
Current-year receipts	151,000,000	97,168,000
Conditions met - transferred to revenue	(172,005,330)	(205,281,304)
	100,115,219	**121,120,549**

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

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

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Restructuring grant

Balance unspent at beginning of year	123,685	1,918,768
Conditions met - transferred to revenue	(123,685)	(1,795,083)
	-	**123,685**

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

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 addresses challenges in a sustainable manner.

Local government and housing infrastructure grant

Balance unspent at beginning of year	3,965,043	19,705,218
Conditions met - transferred to revenue	-	(15,740,175)
	3,965,043	**3,965,043**

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

The grant is allocated for housing infrastructure projects for the Grassland area.

Local government and housing grant - White city hostels

Balance unspent at beginning of year	1,215,190	9,163,022
Conditions met - transferred to revenue	(1,172,882)	(7,947,832)
	42,308	**1,215,190**

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

The grant is allocated for the upgrading of the White city hostels.

Urban renewal grant

Balance unspent at beginning of year	568,879	377,500
Current-year receipts	-	175,850
Conditions met - transferred to revenue	(288,326)	15,529
	280,553	**568,879**

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

The grant is allocated for the development of erven.

DBSA - Capacity building programme grant

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

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

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

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Provincial grant - Hlasela project - Boikemesetso farming

Balance unspent at beginning of year	-	200,000
Conditions met - transferred to revenue	-	(200,000)
	-	**-**

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

The purpose of this grant is to assist the entity with the implementation of the operation Hlasela project - a cooperative farming in Boikemesetso.

Provincial grant - Grasslands area

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

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

The grant is to be used for the installation of storm water drainage and regravelling of roads. Planning and surveying in respect of phase 3 of the Grasslands area.

Provincial grant - Hlasela project - Upgrading housing Batho

Balance unspent at beginning of year	2,083,399	8,000,000
Current-year receipts	5,577,059	-
Conditions met - transferred to revenue	(5,911,183)	(5,916,601)
	1,749,275	**2,083,399**

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

The purpose of the grant is to assist the entity with the operation Hlasela project, the upgrading of housing in the Batho area.

National electrification program grant

Current-year receipts	13,000,000	1,227,000
Conditions met - transferred to Centlec Pty Ltd	(13,000,000)	(1,227,000)
	-	**-**

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

The grant is used to sddress the electrification backlog of permanently occupied residential dwellings, the installation of bul infrastructure and rehabilitation of electrification infrastructure. The grant is transferred to Centlec Pty Ltd.

DWAF - Water services operating and transfer subsidy grant

Balance unspent at beginning of year	2,025,822	9,402,864
Conditions met - transferred to revenue	(2,025,822)	(7,377,042)
	-	**2,025,822**

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

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

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Provincial grant - Land use scheme

	2011 R	2010 R
Balance unspent at beginning of year	748,686	1,395,045
Conditions met - transferred to revenue	(748,686)	(646,359)
	-	**748,686**

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

To assist the entity with the compilation of a town planning scheme, to manage land development.

Provincial grant - Hlasela project - Batho car wash

	2011 R	2010 R
Balance unspent at beginning of year	150,000	-
Current-year receipts	-	150,000
	150,000	**150,000**

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

The purpose of this grant is to assist the entity with the implementation of the operation Hlasela project, a car wash in the Batho area.

COGTA - Fire suppression grant

	2011 R	2010 R
Balance unspent at beginning of year	82,817	2,260,660
Conditions met - transferred to revenue	-	(2,177,843)
	82,817	**82,817**

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

The grant was allocated to the entity to capacitate the fire and rescue division in order to deal with the 2010 World cup.

Provincial Grant - Du Plessis / Muller intersection

	2011 R	2010 R
Balance unspent at beginning of year	578,732	3,000,000
Conditions met - transferred to revenue	(24,092)	(2,421,268)
	554,640	**578,732**

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

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

Provincial grant - Batho roads project

	2011 R	2010 R
Current-year receipts	26,757,491	30,000,000
Conditions met - transferred to revenue	(334,124)	(30,000,000)
	26,423,367	**-**

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

The purpose of this grant is to assist the entity with the implementation of the upgrading of roads in the Batho area.

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Provincial Grant - Hlasela Project - Re Ba Ikemetseng Bomme

Balance unspent at beginning of year	100,000	-
Current-year receipts	-	100,000
	100,000	**100,000**

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

The purpose of this grant is to assist the entity with the implementation of the operation Hlasela project, Re Ba Ikemetseng Bomme swing project.

Provincial grant - Hlasela project - Iphahamilseng centre

Balance unspent at beginning of year	3,703	-
Current-year receipts	-	144,000
Conditions met - transferred to revenue	-	(140,297)
	3,703	**3,703**

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

The purpose of this grant is to assist the entity with the implementation of the operation Hlasela project, for swings, computer internet services and adopting the Iphahamilseng center for vulnerable children.

Provincial grant - Hlasela project - Lehlohonolo music group

Balance unspent at beginning of year	7,200	7,200
Conditions met - transferred to revenue	(7,200)	-
	-	**7,200**

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

The purpose of this grant is to assist the entity with the implementation of the operation Hlasela project, the Lehlohonolo music group.

2010 World cup - Stadia development grant

Balance unspent at beginning of year	-	34,410,832
Current-year receipts	-	1,979,234
Conditions met - transferred to revenue	-	(36,390,066)
	-	**-**

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

The grant was allocated to the entity for the development and improvement of the sport stadium for the 2010 World cup.

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

Provincial grant - Township establishment - Caleb Motshabi

Balance unspent at beginning of year	1,343,791	2,000,000
Conditions met - transferred to revenue	(1,196,552)	(656,209)
	147,239	**1,343,791**

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

To assist the entity with the establishing of the township establishment Caleb Motshabi.

Motheo - Upgrading of roads grants

Current-year receipts	1,259,252	-

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

The purpose of this grant is to assist the entity with the implementation of the upgrading of roads.

Provincial grant - Hlasela project - Re Ba Ikemetseng Bomme

Balance unspent at beginning of year	100,000	-
Current-year receipts	-	100,000
	100,000	**100,000**

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

The purpose of the grant is to assist the entity with the implementation of the Hlasela project, for the Re Ba Ikemetseng Bomme sewing project.

Urban settlement development grant

Current-year receipts	6,505,054	-

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

The grant was allocated to the entity for PHP housing infrastructure projects in Thaba Nchu.

Motheo - Tourism grant

Current-year receipts	10,750	-

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

The purpose of the grant is to assist the entity with tourism in the Mangaung area.

Provincial grant - CCTV

Balance unspent at beginning of year	130,851	20,045,000
Conditions met - transferred to revenue	-	(19,914,149)
	130,851	**130,851**

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

Notes to the Annual Financial Statements

	2011 R	2010 R

30. Government grants and subsidies (continued)

The was allocated to the entity for CCTV cameras at the Bloemfontein CBD stadium and Navil Hill.

2010 World cup - Host city operating grant

	2011 R	2010 R
Balance unspent at beginning of year	19,000,000	50,096,750
Current-year receipts	-	19,000,000
Conditions met - transferred to revenue	(19,000,000)	(50,096,750)
	-	**19,000,000**

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

The grant was allocated to the entity to assist with the development and improvement of stadiums and to assist host cities with operational responsibilities associated with hosting the 2010 World cup.

31. Investment revenue

	2011 R	2010 R
Interest earned		
Cash and cash equivalents	10,643,763	11,143,530
Centlec Pty Ltd - Advances	17,542,716	11,809,442
Centlec Pty Ltd - Shareholders loan	118,635,226	109,407,756
Interest charged on consumer receivables	21,877,414	33,163,425
Non-current loans and receivables	2,471,265	2,271,832
	171,170,384	**167,795,985**

32. Other income

	2011 R	2010 R
Actuarial gain on defined benefit plan obligation	44,600,000	-
Administration costs recoverable	643,007	242,313
Building plan fees	2,169,747	2,001,891
Commission fresh market produce	14,536,896	13,900,564
Entrance fees	1,575,595	1,255,847
Grave plots	2,558,390	2,489,429
Insurance collection	1,169,351	1,103,469
Parking fees	863,617	730,232
Reconnection of water	447,438	405,753
Sale of land	2,772,870	3,931,995
Sale of redundant materials	2,566,681	2,639
Special removals	979,994	771,725
Sundry income	10,447,457	7,809,077
Training casts recoverable	3,762,810	386,479
Unclaimed deposits	3,003,845	1,861,941
World cup 2010	16,500,000	-
	108,597,698	**36,893,354**

	2011 R	2010 R

33. Property rates

Rates received

	2011 R	2010 R
Residential and business/commercial	345,437,738	308,762,787
Government	60,039,489	36,795,651
Less: Fair value adjustment	-	(3,098,919)
	405,477,227	**342,459,519**

Valuations

	2011 R	2010 R
Residential	29,916,527,939	28,615,616,839
Business/Commercial	8,120,458,971	7,841,067,420
Government	3,557,411,249	3,190,647,949
Municipal	2,256,369,880	2,185,893,580
	43,850,768,039	**41,833,225,788**

Valuations on land and buildings are performed at least every 5 years. The last valuation came into effect on 1 July 2007 and the following valuation will come into effect on 1 July 2012. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

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 smallholding's 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.

The new general valuation will be implemented on 01 July 2011.

2010
From 1 July 2009 the basic rates were 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/commercial property

2011
From 1 July 2010 the basic rates were adjusted as follows:

- R0,6386 on the value of rateable farm property
- R0,6386 on the value of rateable residential property
- R1,5965 on the value of rateable government property
- R3,1081 on the value of rateable business/commercial property

Notes to the Annual Financial Statements

	2011 R	2010 R

34. Rental income

	2011 R	2010 R
Premises		
Premises	812,317	750,186
Venue hire	1,500,270	1,345,740
	2,312,587	**2,095,926**
Facilities and equipment		
Deferred lease income	2,621,360	3,082,508
Rental of equipment	270,234	211,176
Rental of facilities	12,324,305	13,362,485
Rental of other	501,582	837,699
	15,717,481	**17,493,868**
	18,030,068	**19,589,794**

35. Service charges

	2011 R	2010 R
Refuse removal	5,343,219	4,593,428
Sale of water	371,903,715	303,100,248
Sewerage and sanitation charges	138,781,242	127,253,044
Less: Fair value adjustment	-	(5,419,255)
	516,028,176	**429,527,465**

36. Bad debts and provision for bad debts

	2011 R	2010 R
Contributions to debt impairment provision	153,159,547	82,710,130

37. Bulk purchases

	2011 R	2010 R
Water	250,218,544	187,207,256

38. Contracted services

	2011 R	2010 R
Debt collection fees	24,357,150	30,056,876
Other contracted services	42,141,061	40,442,112
Security services	14,728,719	13,384,414
VAT review fees	16,184,960	30,235,598
	97,411,890	**114,119,000**

39. Depreciation and amortisation

	2011 R	2010 R
Intangible assets	-	2,325,253
Property, plant and equipment	135,527,740	123,024,585
	135,527,740	**125,349,838**

Notes to the Annual Financial Statements

	2011 R	2010 R

40. Employee related costs

	2011 R	2010 R
Contribution to pensions and medical aids	111,105,243	94,862,170
Contributions to UIF	3,791,385	3,536,468
Defined benefit plan obligation - Actuarial loss	-	11,425,000
Defined benefit plan obligation - Current service cost	18,346,000	18,556,000
Employee related costs - Salaries and wages	504,942,218	454,939,183
Housing benefits and allowances	2,790,346	3,541,749
Overtime payments	55,632,880	47,433,564
Staff bonuses - 13th cheque	2,040,006	1,706,646
Staff leave day's accrual	7,890,402	18,326,434
Travel, car, accommodation, subsistence and other allowances	42,860,379	38,732,514
	749,398,859	**693,059,728**

Remuneration of Accounting Officer

	2011 R	2010 R
Annual remuneration	1,176,129	1,008,510
Car allowance	240,000	220,000
Contributions to UIF, medical aid and pension fund	211,452	183,652
	1,627,581	**1,412,162**

The remuneration as reflected in 2010 was for a period of 11 months.

Remuneration of Chief Finance Officer

	2011 R	2010 R
Annual remuneration	960,082	903,907
Car allowance	156,000	156,000
Contributions to UIF, medical aid and pension fund	228,382	212,657
	1,344,464	**1,272,564**

Remuneration of Executive Director - Chief Operating Officer

	2011 R	2010 R
Annual remuneration	-	207,706
Car allowance	-	8,790
Contributions to UIF, medical aid and pension fund	-	382
Leave pay	-	312,606
	-	**529,484**

This directorate has been discontinued from 1 July 2010. The activities under the control of the Chief Operating Officer were absorbed into the other directorates.

Remuneration of Executive Director - Corporate Services

	2011 R	2010 R
Acting allowance	-	6,002
Annual remuneration	1,372,423	1,260,746
Car allowance	84,000	84,000
Contributions to UIF, medical aid and pension fund	1,547	1,542
	1,457,970	**1,352,290**

Notes to the Annual Financial Statements

	2011 R	2010 R

40. Employee related costs (continued)

Remuneration of Executive Director - Community and Social Development

Annual remuneration	903,043	519,983
Car allowance	120,000	73,000
Contributions to UIF, medical aid and pension fund	176,255	88,555
	1,199,298	**681,538**

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

Remuneration of Executive Director - Infrastructure Services

Annual remuneration	993,398	927,928
Car allowance	240,000	240,000
Contributions to UIF, medical aid and pension fund	14,116	12,870
	1,247,514	**1,180,798**

Remuneration of Executive Director - Economic Development and Planning

Annual remuneration	1,179,059	629,229
Car allowance	120,000	60,000
Contributions to UIF, medical aid and pension fund	158,911	771
	1,457,970	**690,000**

The remuneration as reflected in 2010 was for a period of 6 months.

Remuneration of Executive Director - Operations

Annual remuneration	1,240,158	-
Car allowance	168,000	-
Contributions to UIF, medical aid and pension fund	17,753	-
	1,425,911	**-**

This directorate was established in the current year to cater for the functions of the regional managers.

41. Finance costs

Consumer deposits	2,702,170	942,630
Defined benefit plan obligation	28,226,000	29,709,000
Fair value adjustments on payables	-	7,617,777
Finance leases	1,855,056	323,794
Late payment of tax	-	1,060,373
Non-current borrowings - DBSA	1,348,540	1,385,859
	34,131,766	**41,039,433**

Notes to the Annual Financial Statements

	2011 R	2010 R

42. General expenses

	2011 R	2010 R
Advertising	1,372,669	1,619,257
Bank charges	6,374,767	4,247,402
Chemicals	6,283,515	6,004,385
Cleaning	8,096,261	4,305,991
Community development and training	3,426,750	2,863,849
Computer expenses	225	319,503
Conferences and seminars	2,679,410	2,976,141
Consumables	64,960	53,897
Electricity	35,562,430	25,039,056
Financial management grant projects	1,238,094	1,058,911
Fuel and oil	16,108,181	17,930,143
Hire equipment	5,355,956	3,628,005
IDP CBP and ward committee planning	1,120,257	3,110,756
Indigent burials	1,682,932	3,285,924
Insurance	3,185,072	3,273,581
Legal expenses	12,624,892	13,852,906
License fees	3,303,517	3,966,384
Marketing	2,734,791	12,850,167
Penalties and interest	13,930,604	4,039,516
Postage and courier	5,143,425	5,294,591
Printing and stationery	4,608,719	5,678,607
Provision for rehabilitation of quarries and landfill sites	8,846,570	4,425,803
Reconnection test and removal - meters	7,678,709	1,072,936
Refreshments	599,834	619,272
Refuse	3,235,329	2,612,261
Restructuring	2,547,520	1,795,083
Skills development and training	3,407,858	2,094,520
Skills development levy	5,873,683	5,269,271
Stores and material	3,023,386	3,810,210
Subscriptions and membership fees	4,900,800	5,600,185
Sundry expenses	17,581,762	13,828,931
Telephone and fax	12,937,080	15,576,087
Tools, plant and equipment	264,986	449,406
Uniforms and protective clothing	2,955,195	3,148,317
Vacuum services	7,346,390	5,954,823
Vehicle tracking system	353,632	359,419
Venue rental expenses	1,834,395	2,396,625
Water	10,229,762	9,539,898
Water leakage awareness and repairs	200,000	4,877,042
Water research	2,009,308	2,025,534
Workmen's compensation contributions	2,450,205	2,268,454
World cup expenditure	10,974,741	59,267,332
	244,148,572	**272,390,381**

Distribution of World cup tickets	**2010 Quantity**		
Value of ticket purchases	-	-	15,053,914
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 and stakeholders	1,400	-	-
Total tickets acquired	**46,873**	**-**	**15,053,914**

Notes to the Annual Financial Statements

	2011 R	2010 R
42. General expenses (continued)		
Purchases of other world cup apparel		
T-shirts, caps, flyers and other marketing material	46,100	3,080,463

43. Grants and subsidies paid

	2011 R	2010 R
Other subsidies		
Bursaries to employees	732,767	826,383
Central Agricultural Society	-	8,107
Cost of living allowance for pensioners	154,171	153,642
Employees and ex-employees	-	(258)
Free electricity services	19,985,420	39,364,134
Miscellaneous grants	115,429	93,364
National Electrification Program Grant	5,000,000	1,227,000
SPCA	351,099	328,130
	26,338,886	**42,000,502**

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

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

44. Remuneration of councillors

	2011 R	2010 R
Executive Mayor	708,438	675,011
Deputy Executive Mayor	560,113	540,008
Executive Mayoral Committee Members	5,304,134	4,556,322
Chief Whip	319,044	506,258
Speaker	561,207	540,008
Part time Councillors	15,172,699	15,086,773
	22,625,635	**21,904,380**

In-kind benefits

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

The Executive Mayor and Deputy Executive Mayor 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.

Notes to the Annual Financial Statements

	2011 R	2010 R

45. Cash generated from operations

Surplus / (Deficit)	411,203,893	285,007,526
Adjustments for:		
Depreciation and amortisation	135,527,740	125,349,838
Interest on fair value of receivables	19,150,263	(9,609,671)
Interest on fair value of payables	116,579	7,617,777
Deferred lease expenditure	(329,022)	-
Interest income on cash and cash equivalents	(171,053,805)	(8,568,971)
Finance costs	5,576,745	2,652,283
Debt impairment	153,159,547	82,710,130
Other non-cash items	(330,930,540)	(769,626)
Contributions to non-current provisions	5,756,300	4,425,802
Staff bonuses - 13th cheque accrual	2,040,006	1,706,646
Staff leave day accrual and receivable	8,477,310	18,326,434
Defined benefit plan obligation: Benefits paid by the plan	(6,319,151)	(5,894,000)
Defined benefit plan obligation: Current services costs	18,346,000	18,556,000
Defined benefit plan obligation: Interest	28,226,000	29,709,000
Defined benefit plan obligation: Actuarial (gains) / losses recognised in surplus / (deficit)	(44,600,000)	11,425,000
Changes in working capital:		
(Increase) / decrease inventory	2,061,167	(5,033,240)
Other receivables from exchange transactions	(26,667,078)	(21,781,890)
(Increase) / decrease in other receivables	25,246,680	848,034
(Increase) / decrease in impairment	-	(82,672,371)
Unspent conditional grants and receipts	(48,995)	(184,747,200)
Increase / (decrease) in payables	25,518,689	180,324,309
VAT	(8,475,826)	30,985,715
	251,982,502	**480,567,525**

Notes to the Annual Financial Statements

	2011 R	2010 R

46. Commitments

Commitments in respect of capital expenditure

Approved and contracted for		
• Community	-	23,300,668
• Infrastructure	210,695,083	509,680,520
• Other financial assets	220,311,874	-
	431,006,957	**532,981,188**

The capital expenditure will be financed from		
• Non-current borrowings, refer to note 14	22,347,156	12,493,642
• Unspent conditional grants and receipts, refer to note 19	231,636,753	231,685,748
• Own resources	177,023,048	288,801,798
	431,006,957	**532,981,188**

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	148,537	594,149
- in second to fifth year inclusive	-	742,687
	148,537	**1,336,836**

Operating leases payments represent rentals payable by the entity for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 3 years. No sublease contracts exists and no contingent rent is payable for the reporting period.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	5,974,020	6,716,666
- in second to fifth year inclusive	19,696,479	145,269,782
- later than five years	111,564,642	121,198,260
	137,235,141	**273,184,708**

The entity leases various fixed properties under non-cancelable 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 R6,879,692 has been recognised in the Statement of financial performance during the year.

Notes to the Annual Financial Statements

	2011 R	2010 R

47. Guarantees and contingent liabilities

Guarantees

Housing loans	3,002,597	2,973,881

These are guarantees by the entity for housing loans to employees at various financial institutions.

Contingent liabilities

Various contractual claims by contractors, suppliers and staff are currently in dispute, and are subject to mediation. The maximum potential liability is estimated at R28,29 million (2010: R78,57 million). Included in the total estimate of R28,29 million is a disputed amount of R20,69 million, which relates to a claim from Centlec Pty Ltd for the refunding regarding payment of interest charged on overdue account.

The entity is of the opinion that the litigation is likely to be in their favour. The legal costs was estimated and included in the total estimate amount. The timing of the legal proceedings regulating the above is, however, uncertain.

Notes to the Annual Financial Statements

	2011 R	2010 R

48. Related parties

Relationships

Controlled entities	Refer to note 12		

Related party balances

	2011 R	2010 R
Loan accounts - Owing (to) by related parties		
Centlec Pty Ltd - Advances	149,779,678	163,617,713
Centlec Pty Ltd - Deferred interest on shareholders loan	(662,895,310)	(682,045,573)
Centlec Pty Ltd - Intercompany loan balance	354,277,059	314,627,575
Centlec Pty Ltd - Shareholders loan	1,339,348,947	1,339,348,947

Related party transactions

	2011 R	2010 R
Interest paid to (received from) related parties		
Centlec Pty Ltd - Advances	17,542,716	11,809,442
Centlec Pty Ltd - Shareholders loan	118,635,226	109,407,756
Administration fees paid to (received from) related parties		
Centlec Pty Ltd	(8,729,170)	(7,131,792)
Management fees paid to (received from) related parties		
Centlec Pty Ltd	(1,787,270)	(2,137,516)
Expenses paid to (received from) related parties		
Centlec Pty Ltd - Insurance	(853,855)	(774,968)
Centlec Pty Ltd - Employee related cost	(104,639,888)	(97,121,310)
Centlec Pty Ltd - Services	(10,516,440)	(9,269,308)
Centlec Pty Ltd - Electricity charges	35,562,430	25,039,056
Centlec Pty Ltd - Water charges	-	(8,370)
Centlec Pty Ltd - Rates and services charges	-	(3,955,630)

Loan to member of key management	**Opening balance**	**Loan repaid**
Mafisa M A	3,151	(3,151)

Vehicle loans were grated at 8.5.% interest per annum repayable over a maximum period 6 years. Repayments were made on a monthly basis by way of salary deductions. No further loans are granted.

Key management and Councillors
No business transactions took place between the Entity and key management personnel or their close family members during the reporting period.

Details relating to remuneration are disclosed in note 40, for key management and note 44 for Councillors.

49. Prior period errors - Cleaning of litter hotspots

Reclassification of an employee related cost item which was incorrectly included under the general expenses line item.

The correction of the error results in adjustments as follows:

	2011 R	2010 R
Statement of financial performance		
Increase in employee related costs	-	27,875
Decrease in general expenses	-	(27,875)

Notes to the Annual Financial Statements

	2011 R	2010 R

50. Prior period errors - Training venues

During the 2009/10 financial year , management incorrectly classified an expense relating to the reconstruction of a sport pitch as general expenditure, whereas it should have been classified as repairs and maintenance.

The correction of the error results in adjustments as follows:

Statement of financial performance		
Increase in repairs and maintenance	-	253,598
Decrease in general expenses	-	(253,598)

51. Prior period errors - Haiti investment account

The Haiti Relief Fund was incorrectly excluded from the financial records of the entity in the prior year.

The correction of the error results in adjustments as follows:

Statement of financial position		
Increase in cash and cash equivalents	-	3,780
Increase in payables from exchange transactions	-	(3,780)
Cash flow statement		
Increase in cash flow from operating activities	-	3,780
Increase in cash and cash equivalents	-	(3,780)

52. Prior period errors - Primary bank account

The balance of the entity's primary account was incorrectly stated in the prior year due to incorrect preparation of the bank reconciliation.

The correction of the error results in adjustments as follows:

Statement of financial position		
Increase in cash and cash equivalents	-	1,636,650
Increase in other receivables from non-exchange transactions	-	3,617
Increase in payables from exchange transactions	-	(1,640,267)

53. Prior period errors - Unspent conditional grants

This balance of unspent conditional grants were incorrectly decreased in the prior year.

The correction of the error results in adjustments as follows:

Statement of financial position		
Increase in unspent conditional grants	-	(153,028)
Statement of financial performance		
Increase in general expenses	-	153,028

54. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Investments in controlled entities	100	10,367
Current portion of non-current receivables	27,617,037	27,784,424

55. Risk management

Financial risk management

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

The Council has overall responsibility for the establishment and oversight of the entity’s risk management framework.

The entity’s audit committee oversees the monitoring of compliance with the entity’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by the entity's internal audit function.

The entity has exposure to the following financial risks from its use of financial instruments:

- liquidity risk;
- credit risk; and
- market risk (including, interest rate risk, fair value interest rate risk, cash flow interest rate risk).

The entity seeks to minimise the effects of these risks in accordance with the entity’s policies approved by the Council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and in the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The entity does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

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

Interest rate risk

Credit risk

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

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

Financial instrument	**2011**	**2010**
Cash and cash equivalents	231,675,533	46,885,251
Available-for-sale investments	11,868	10,467

The entity is exposed to a number of guarantees for housing loans of employees. Refer to note 47 for additional details.

56. Going concern

We draw attention to the fact that at 30 June 2011, the entity had accumulated surplus/(deficits) of R 2,155,826,273 and that the entity's total assets exceed its liabilities by R 2,836,192,388.

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.

Although certain going concern ratios may appear unfavourable, the entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act of 2010.

Notes to the Annual Financial Statements

	2011 R	2010 R

57. Events after the reporting date

The accounting officer is not aware of any material 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.

58. Unauthorised expenditure

	2011 R	2010 R
Opening balance	399,081,386	342,867,794
Unauthorised expenditure - current year	49,068,136	56,213,592
	448,149,522	**399,081,386**

Details of unauthorised expenditure

Incidents regarding 2007/2008	**Disciplinary steps taken/criminal proceedings**		
Infrastructural services	Awaiting condonation	21,389,005	21,389,005
Miscellaneous services	Awaiting condonation	168,868,774	168,868,774
Office of the city manager	Awaiting condonation	965,000	965,000
Water	Awaiting condonation	31,393,789	31,393,789
Incidents regarding 2008/2009	**Disciplinary steps taken/criminal proceedings**		
Unbudgeted infrastructure services	Awaiting condonation	12,592,777	12,592,777
Unbudgeted environmental management	Awaiting condonation	423,098	423,098
Unbudgeted expenditure	Awaiting condonation	107,235,351	107,235,351
Incidents regarding 2009/2010	**Disciplinary steps taken/criminal proceedings**		
Fresh produce market	None	527,316	527,316
Miscellaneous services	None	48,014,018	48,014,018
Office of the city manager	None	791,620	791,620
Overspending on the finance directorate	None	6,880,638	6,881,000
Incidents regarding 2010/2011	**Disciplinary steps taken/criminal proceedings**		
Fresh produce market	None	417,912	-
Unbudgeted capital expenditure water	None	6,304,233	-
Water	None	42,191,931	-

59. Fruitless and wasteful expenditure

	2011 R	2010 R
Opening balance	9,227,590	2,796,522
Fruitless and wasteful expenditure - current year	12,863,872	6,431,068
	22,091,462	**9,227,590**

Details of fruitless and wasteful expenditure incidents 2008/09	**Disciplinary steps taken / criminal proceedings**

Notes to the Annual Financial Statements

59. Fruitless and wasteful expenditure (continued)

		2011 R	2010 R
Penalties and interest paid on late payment of UIF for Councillors. The entity 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 penalties and interest is not recoverable as no official of the entity is liable for the non-payment of the UIF contributions, an item was prepared for condonation.	41,490	41,490
Interest paid on overdue accounts.	The interest could not be recovered, an item was prepared for condonation.	5,235	5,235
Excessive credit card expenditure of the Executive Mayor was incurred to pay for accommodation.	The money could not be recovered as there were weaknesses in the policies. A new business credit card policy has been drafted and is awaiting approval. An item was prepared for condonation.	2,010	2,010
Details of fruitless and wasteful expenditure incidents 2009/10	**Disciplinary steps taken / criminal proceedings**		
Fruitless and wasteful expenditure incurred due to settlement of legal cost.	The legal cost could not be recovered, an item was prepared for condonation.	2,744,214	2,744,214
No support could be obtained that an official attended a 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	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. After the payment was made by the entity, the entity lodged an appeal.	None.	191,066	191,066
Expenditure incurred on fuel cards while the use of the fuel cards have been stopped.	None.	36,606	36,606
Differences on electricity expenses.	The matter was identified during the 2010 audit and need to be investigated.	1,077	1,077
Discrepancies regarding credit card expenditure.	The matter was identified during the 2010 audit and need to be investigated.	3,272	3,272
Penalties and interest paid on the late submission of a VAT return.	The result of the investigation from SARS is awaited.	5,099,888	5,099,888
Details of fruitless and wasteful expenditure incidents 2010/11	**Disciplinary steps taken / criminal proceedings**		
The use of fuel cards have been stopped, the account was closed late and the monthly bank charges continued till the account was closed.	None.	34,849	-

Notes to the Annual Financial Statements

		2011 R	2010 R

59. Fruitless and wasteful expenditure (continued)

		2011 R	2010 R
Penalties and interest paid on the late submission of a VAT return.	None.	11,767,867	-
Penalties and interest paid on the late submission of PAYE, UIF and SDL.	A letter was written to SARS, requesting them to waive the penalties and interest charged on late submission due to a banking error.	1,061,155	-

60. Irregular expenditure

	2011 R	2010 R
Opening balance	143,255,885	40,777,973
Irregular expenditure - current year	5,471,474	102,477,912
	148,727,359	**143,255,885**

Analysis of expenditure awaiting condonation per age classification

	2011 R	2010 R
Current year	5,471,474	102,477,912
Prior years	143,255,885	40,777,973
	148,727,359	**143,255,885**

Details of irregular expenditure – current year

Expenditure items identified were the supply chain process was not followed	The expenditure was identified during the current financial year and still needs to be investigated.	1,859,573
Expenditure items identified were the tender process was not followed	The expenditure was identified during the current financial year and still needs to be investigated.	3,611,901
		5,471,474

61. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2011 R	2010 R
Current year subscription fee	3,683,225	3,321,301
Amount paid - current year	(3,683,225)	(3,321,301)
	-	**-**

Contributions to organised local government consist out of annual subscriptions paid to SALGA.

Material losses through criminal conduct

There were no material losses through criminal conduct for the current and prior reporting period.

Audit fees

	2011 R	2010 R
Opening balance	477,336	336,705
Current year regularity audit fees	8,124,773	2,027,277
Current year performance audit fee	-	652,538
Amount paid - current year	(7,758,961)	(7,635,217)
Amount paid - previous years	(477,336)	5,096,033
	365,812	**477,336**

Notes to the Annual Financial Statements

	2011 R	2010 R

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

PAYE, UIF and SDL

	2011 R	2010 R
Opening balance	-	5,981,697
Payable for the current year	103,392,984	89,111,163
Amount paid - current year	(101,753,036)	(89,111,163)
Amount paid - previous years	-	(5,981,697)
	1,639,948	**-**

Pension and medical aid deductions

	2011 R	2010 R
Opening balance	-	249,547
Current year payroll deductions	181,280,886	139,861,484
Amount paid - current year	(181,280,886)	(139,861,484)
Restatement	-	(249,547)
	-	**-**

VAT

	2011 R	2010 R
VAT payable	78,619,536	87,095,562

VAT output payables and VAT input receivables are shown in note 20.

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

The VAT account of the entity is currently under investigation by SARS.

Notes to the Annual Financial Statements

	2011 R	2010 R

61. 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 2011:

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Britz JF	1,327	-	1,327
Choene K	2,199	243	2,442
Erasmus JC	788	-	788
July LR	776	249	1,025
Lazenby JAA	213	-	213
Lephoi MJ	156	-	156
Manyoni TM	4,325	-	4,325
Maphakisa LE	578	10,175	10,753
Mashoane ED	-	114,540	114,540
Matsemeleala MV	10,223	825	11,048
Matsoetlane MJ	385	1,715	2,100
Minnie H	139	174	313
Monnakgori SA	400	-	400
Mpakathe TS	33	-	33
Mpheqeka MS	1,515	32,366	33,881
Naile TJ	46	443	489
Ndamane SS	1,810	4,144	5,954
Northnage l J	-	1,110	1,110
Powell JD	1,231	-	1,231
Sechoaro CSK	1,905	-	1,905
Setlaba ME	-	299	299
Snyman van Deventer E	1,535	-	1,535
Titi LM	2,474	8,998	11,472
van der Merwe R	712	-	712
Van der Westhuizen PM	371	-	371
Ward BC	2,031	9,741	11,772
	35,172	**185,022**	**220,194**

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

Notes to the Annual Financial Statements

		2011 R	2010 R
61. Additional disclosure in terms of Municipal Finance Management Act (continued)			
	25,711	**166,930**	**192,641**

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

30 June 2011		**Highest outstanding amount**
Mangcotywa ZE		2,223
Siyonzana MA		8,264
	-	**10,487**

30 June 2010		**Highest outstanding amount**
Erasmus JC		820
Choene SKM		1,441
Morule FK		23,562
Nakedi SS		2,602
Siyonzana MA		10,873
	-	**39,298**

Deviation from supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council.

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.

For the financial year there were instances where goods and services were procured and deviated from the normal supply management policy.

The reasons for these deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations	**2011**	**Number of deviations**
Emergency	73,320	2
Sole supplier	93,746	5
Urgent	2,699,051	13
	2,866,117	**20**

62. Actual operating expenditure versus budgeted operating expenditure

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

63. Actual capital expenditure versus budgeted capital expenditure

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

64. Non-compliance with laws and regulations

During the current financial year the following non-compliance issues were identified:

Supply chain management regulations 12(1)(c), 17(1)(a) - (c)
Goods and services of a transaction value between R10,000 and R200,000 were procured without inviting at least three written price quotations from accredited prospective providers and the deviation was not approved by the CFO or his/her delegate.

Supply chain management regulations 36(1)
Goods and services with a transaction value above R200,000 were not procured by means of a competitive bidding process and the deviation was not approved by the accounting officer or his/her delegate in accordance with the supply chain management policy.
Deviations from competitive bidding were approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available to follow a bidding process.
Deviations from competitive bidding were approved on the basis of it being an emergency, even though proper planning would have prevented such emergency.

Municipal Finance Management Act section 2(1)(f)
Contracts were awarded without justification to bidders who did not score the highest points.

Municipal Finance Management Act section 116(2)(b)
The performance of all contractors were not monitored on a monthly basis.

Municipal Finance Management Act section 116(3)(a)
Contracts were amended or extended without tabling the reasons to the council and/or notifying the public.

Appendix A
June 2011

Schedule of external loans as at 30 June 2010

	Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			-	-	-	-	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
Total external loans			-	-	-	-	-	-

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX A

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011

	Loan number	Redeemable date	Balance at 01 July 2010	Amount received during the period	Amount redeemed/written off during the period	Balance at 30 June 2011	Carrying value of Property, plant and equipment
Annuity loans			R	R	R	R	R
DBSA @ 14%	1864	30 September 2011	345,290	-	222,332	122,958	907,989
DBSA @ 10%	8001	31 December 2015	12,148,352	-	1,753,928	10,394,424	11,615,849
DBSA @ 6.75%	FS1034	31 March 2026	-	11,829,774	-	11,829,774	11,220,000
Total annuity loans			12,493,642	11,829,774	1,976,260	22,347,156	23,743,838
Total external loans			12,493,642	11,829,774	1,976,260	22,347,156	23,743,838

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

	Loan number	Redeemable date	Balance at 01 July 2009	Amount received during the period	Amount redeemed/written off during the period	Balance at 30 June 2010	Carrying value of Property, plant and equipment
Annuity loans			R	R	R	R	R
DBSA @ 14%	1864	30 September 2011	539,483	-	194,193	345,290	952,102
DBSA @ 10%	8001	31 December 2015	13,739,217	-	1,590,865	12,148,352	12,804,404
Total annuity loans			14,278,700	-	1,785,058	12,493,642	13,756,506
Total external loans			14,278,700	-	1,785,058	12,493,642	13,756,506

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX B

ANALYSIS OF INFRASTRUCTURE PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2011

	Cost / Revaluation				Accumulated depreciation			
	Opening Balance	Additions	Under Construction	Closing Balance	Opening Balance	Additions	Closing Balance	Carrying Value
Land and Buildings								
Land	595,610,879	-	-	595,610,879	-	-	-	595,610,879
Buildings	1,023,441,277	13,835,135	164,739,741	1,202,016,153	266,127,243	19,843,721	285,970,964	916,045,189
	1,619,052,156	**13,835,135**	**164,739,741**	**1,797,627,032**	**266,127,243**	**19,843,721**	**285,970,964**	**1,511,656,068**
Infrastructure								
Drains								
Roads and Stormwater	976,851,409	64,440,636	66,555,460	1,107,847,505	355,954,718	48,405,085	404,359,803	703,487,702
Street Lights	26,631,046	-	-	26,631,046	3,157,725	1,064,200	4,221,925	22,409,121
Traffic Light	14,105,234	-	-	14,105,234	4,901,126	780,174	5,681,300	8,423,934
Railway Sidings	1,962,990	-	-	1,962,990	1,174,317	57,332	1,231,649	731,341
Sewerage Purification	74,044,243	4,314,491	2,702,285	81,061,019	34,937,812	3,028,946	37,966,758	43,094,261
Sewerage Mains	690,982,716	63,261,439	-	754,244,155	178,315,220	24,931,969	203,247,189	550,996,966
Water Purification	7,194,335	-	-	7,194,335	2,633,769	101,963	2,735,732	4,458,603
Water Mains	546,427,422	2,634,086	19,318,496	568,380,004	384,992,999	11,551,288	396,544,287	171,835,717
Electricity Mains	443,656	-	-	443,656	99,611	18,832	118,443	325,213
	2,338,643,051	**134,650,652**	**88,576,241**	**2,561,869,944**	**966,167,297**	**89,939,789**	**1,056,107,086**	**1,505,762,858**
Community Assets								
Parks and Gardens	26,593,397	-	-	26,593,397	11,125,843	904,285	12,030,128	14,563,269
	26,593,397	**-**	**-**	**26,593,397**	**11,125,843**	**904,285**	**12,030,128**	**14,563,269**
Heritage Assets								
Historical Buildings	1,170,929	-	-	1,170,929	1,170,929	-	1,170,929	-
Paintings and Art Galleries	19,679	-	-	19,679	19,679	-	19,679	-
	1,190,608	**-**	**-**	**1,190,608**	**1,190,608**	**-**	**1,190,608**	**-**
Other Assets								
Site Development	93,460,830	5,562,511	1,303,804	100,327,145	30,330,111	2,597,367	32,927,478	67,399,667
Furniture and Office Equipment	120,132,087	8,005,120	-	128,137,207	61,001,668	7,137,809	68,139,477	59,997,730
Tools, Plant and Equipment	42,671,305	63,390	-	42,734,695	31,870,670	2,151,557	34,022,227	8,712,468
Motor Vehicles	182,247,761	1,831,480	-	184,079,241	119,701,946	9,770,082	129,472,028	54,607,213
	438,511,983	**15,462,501**	**1,303,804**	**455,278,288**	**242,904,395**	**21,656,815**	**264,561,210**	**190,717,078**
Leased assets								
Furniture and Office Equipment	7,500,376	-	-	7,500,376	5,589,622	-	5,589,622	1,910,754
	7,500,376	**-**	**-**	**7,500,376**	**5,589,622**	**-**	**5,589,622**	**1,910,754**
Reconciling item	**(1,478,758)**			**(763,954,412)**	**(314,502)**		**(514,089,643)**	**(249,864,769)**
Total	**4,430,012,812**	**163,948,288**	**254,619,786**	**4,086,105,232**	**1,492,790,506**	**132,344,610**	**1,111,359,975**	**2,974,745,257**

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX C

SEGMENTAL ANALYSIS OF INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2011

	Cost					Accumulated depreciation				Carrying value
	Opening balance	Additions	Transfer in	Under construction	Closing balance	Opening balance	Additions	Transfer in	Closing balance	
Office of the City Manager	22,981,333	530,549	3,667,759	-	27,179,641	8,618,650	2,716,848	2,254,809	13,590,307	13,589,334
Corporate Services	171,635,967	-	-3,590,251	-	168,045,716	93,114,339	5,664,359	-2,227,275	96,551,423	71,494,293
Finance	24,043,460	4,596,529	-	-	28,639,989	13,338,177	1,166,521	-	14,504,698	14,135,291
Community and Social Development	332,404,219	2,941,432	-6,027	3,254,023	338,593,647	182,698,776	11,758,348	-3,084	194,454,040	144,139,607
Economic Development and Planning	671,386,386	1,427,014	-	127,669	672,941,069	34,839,398	2,882,809	-	37,722,207	635,218,862
Infrastructural Services	2,486,333,249	147,457,757	-71,481	230,615,794	2,864,335,319	696,950,527	91,613,432	-24,450	788,539,509	2,075,795,810
Miscellaneous Services	9,281,059	-	-	-	9,281,059	6,858,946	-	-	6,858,946	2,422,113
Housing	97,608,371	3,962,274	-	1,303,804	102,874,449	33,922,796	1,714,143	-	35,636,939	67,237,510
Fresh Produce Market	27,734,114	-	-	-	27,734,114	18,773,171	1,239,110	-	20,012,281	7,721,833
Water	588,083,412	3,032,733	-	19,318,496	610,434,641	403,990,229	13,589,040	-	417,579,269	192,855,372
Reconciling item	-1,478,758	-	-	-	-763,954,412	-314,502	-	-	-514,089,643	-249,864,769
TOTAL	4,431,491,570	163,948,288	-	254,619,786	4,850,059,644	1,493,105,008	132,344,610	-	1,625,449,618	3,224,610,026

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX D

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

2010 Actual Income	2010 Actual Expenditure	2010 Surplus/ (Deficit)		2011 Actual Income	2011 Actual Expenditure	2011 Surplus/ (Deficit)
R	R	R		R	R	R
345,558,438	-	345,558,438	Property Rates	405,477,227	-	405,477,227
17,996,350	135,962,693	(117,966,343)	Office of the City Manager	23,352,232	170,866,720	(147,514,488)
1,668,562	73,556,922	(71,888,360)	Corporate Services	4,764,743	73,537,105	(68,772,362)
38,592,142	96,781,564	(58,189,422)	Finance	43,964,970	94,779,827	(50,814,857)
12,408,943	216,151,510	(203,742,567)	Community and Social Development	20,480,134	221,215,035	(200,734,901)
12,640,846	50,719,608	(38,078,762)	Economic Development and Planning	12,365,881	51,741,615	(39,375,734)
299,668,356	408,256,723	(108,588,367)	Infrastructural Services	334,880,726	391,732,609	(56,851,883)
569,673,686	312,281,322	257,392,364	Miscellaneous Services	844,521,377	380,840,129	463,681,248
5,414,485	26,883,937	(21,469,452)	Housing	4,740,257	25,733,101	(20,992,844)
16,071,532	13,150,022	2,921,510	Fresh Produce Market	16,804,280	14,024,725	2,779,555
404,514,626	307,971,067	96,543,559	Water	507,146,385	382,823,453	124,322,932
1,724,207,966	**1,641,715,368**	**82,492,598**	**Total**	**2,218,498,212**	**1,807,294,319**	**411,203,893**

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX E (1)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

	2011 Actual R	2011 Budget R	2011 Variance R	2011 Variance %
Revenue				
Property rates	405,477,227	394,830,187	10,647,040	3%
Service charges	516,028,176	489,196,779	26,831,397	5%
Rental income	18,030,068	18,227,493	(197,425)	-1%
Interest received - external investments	10,643,763	33,630,800	(22,987,037)	-68%
Interest received - outstanding debtors	41,891,395	27,100,000	14,791,395	55%
Interest on shareholders loan	118,635,226	99,484,963	19,150,263	19%
Fines	1,639,801	5,384,845	(3,745,044)	-70%
Licenses and permits	203,192	752,578	(549,386)	-73%
Income from agency services	116,010,183	128,725,173	(12,714,990)	-10%
Government grants and subsidies	881,341,483	1,047,379,401	(166,037,918)	-16%
Other income	108,597,698	99,112,094	9,485,604	10%
Public contributions and donations	-	996,014	(996,014)	-100%
Total Revenue	**2,218,498,212**	**2,344,820,327**	**(126,322,115)**	**-5%**
Expenditure				
Office of the City Manager	170,866,720	196,467,491	(25,600,771)	-13%
Corporate services	73,537,105	82,305,467	(8,768,362)	-11%
Finance	94,779,827	99,878,109	(5,098,282)	-5%
Community and social development	221,215,035	244,672,313	(23,457,278)	-10%
Economic development and planning	51,741,615	68,917,128	(17,175,513)	-25%
Infrastructural services	391,732,609	441,244,749	(49,512,140)	-11%
Miscellaneous services	380,840,129	340,401,163	40,438,966	12%
Housing	25,733,101	28,126,400	(2,393,299)	-9%
Fresh produce market	14,024,725	13,606,813	417,912	3%
Water	382,823,453	340,631,522	42,191,931	12%
Total Expenditure	**1,807,294,319**	**1,856,251,155**	**(48,956,836)**	**-3%**
Surplus/(deficit) for the year	**411,203,893**	**256,466,438**	**154,737,455**	**60%**

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX E (2)

ACTUAL EXPENDITURE VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2011

	2011 Actual	2011 Under construction	2011 Total additions	2011 Budget	2011 Variance	2011 Variance
	R	R	R	R	R	%
Office of the City Manager	530,549	-	530,549	1,130,000	-599,451	-53.05
Corporate services	-	-	-	-	-	-
Finance	4,596,529	-	4,596,529	6,000,000	-1,403,471	-23.39
Community and social development	2,941,432	3,254,023	6,195,454	29,824,695	-23,629,241	-79.23
Economic development and planning	1,427,014	127,669	1,554,683	11,503,478	-9,948,795	-86.49
Infrastructural services	147,457,757	230,615,794	378,073,551	599,246,657	-221,173,106	-36.91
Miscellaneous services	-	-	-	-	-	-
Housing	3,962,274	1,303,804	5,266,078	9,167,537	-3,901,459	-42.56
Fresh produce market	-	-	-	-	-	-
Water	3,032,733	19,318,496	22,351,229	16,046,996	6,304,233	39.29
TOTAL	**163,948,288**	**254,619,786**	**418,568,073**	**672,919,363**	**-254,351,290**	-37.80

MANGAUNG METROPOLITAN MUNICIPALITY

APPENDIX F

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERM OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2011

Name of grants received	Name of organ of state or municiapl entity	Quarterly receipts				Quarterly expenditure				Delayed / withheld	Reasons	Compliance with conditions	Reasons for non-compliance
		Sep 10	Dec 10	Mar 11	Jun 11	Sep 10	Dec 10	Mar 11	Jun 11				
Equitable Share	National Government	206,947,002	164,757,601	123,568,000	-	112,694,790	115,880,465	112,135,258	153,562,090	No	N/A	Yes	N/A
Public Transport Infra & System Grant	National Government	-	-	151,000,000	-	36,865,097	54,090,216	40,851,647	40,198,370	No	N/A	Yes	N/A
DWAF Grant	National Government	-	-	-	-	-	-	-	2,022,610	No	N/A	Yes	N/A
DWAF Grant Seloseha Sewerage	National Government	-	-	-	-	-	-	-	3,212				
Mig Grant - Infrastructural Services	National Government	104,970,000	53,316,000	11,443,000	-	14,277,665	39,703,297	32,742,519	58,379,128	No	N/A	Yes	N/A
Mig Grant Capacity Building	National Government	-	-	-	-	-	398,568	80	-	No	N/A	Yes	N/A
Restructuring Grant	National Government	-	-	-	-	-	-	47,520	76,166	No	N/A	Yes	N/A
Financial Management Grant	National Government	1,189,000	-	-	-	221,430	35,000	-	981,664	No	N/A	Yes	N/A
Municipal System Improvement Grant	National Government	750,000	-	-	-	1,631	108,408	606,208	718,898	No	N/A	Yes	N/A
Housing Accreditation Subsidy	Provincial Government	-	-	-	-	-	55	-	-	No	N/A	Yes	N/A
2010 World Cup Host City Operating Grant	National Government	-	-	-	-	12,816,177	6,183,823	-	-	No	N/A	Yes	N/A
2010 Stadia Provincial Grant	Provincial Government	-	-	-	-	2,700,625	2,945,352	2,597,451	536,543	No	N/A	Yes	N/A
Provincial Grant Land Use Scheme	Provincial Government	-	-	-	-	-	233,110	-	515,576	No	N/A	Yes	N/A
Provincial Grant Planning and Surveying	Provincial Government	-	-	-	-	57,890	-	(104)	23,280	No	N/A	Yes	N/A
Local Government & Housing Grant White City	Provincial Government	-	-	-	-	1,097,801	0	-	75,081	No	N/A	Yes	N/A
Local Government & Housing Infrastructure Grant	Provincial Government	-	-	-	-	-	-	-	-	No	N/A	Yes	N/A
Motheo Contr- Enviromental Health	District Municipality	-	-	-	6,000,000	2,293,578	2,288,044	2,150,611	2,373,925	No	N/A	Yes	N/A
Motheo Contr- Tourism	District Municipality	-	100,000	-	-	-	89,250	-	-	No	N/A	Yes	N/A
Motheo Contr- Upgrading Roads	District Municipality	-	596,850	662,402	-	-	-	-	-	No	N/A	Yes	N/A
Provincial Grant -Urban Renewal	Provincial Government	-	-	-	-	-	-	288,326	-	No	N/A	Yes	N/A
Provincial Grant Upgrading Roads in Batho	Provincial Government	2,334,550	-	30,000,000	-	2,055,274	278,520	-	3,577,388	No	N/A	Yes	N/A
Provincial Grant Upgrading Housing Batho	Provincial Government	-	-	-	-	95,096	239,028	-	-	No	N/A	Yes	N/A
Provincial Grant Township Establishment Caleb Motshabi	Provincial Government	-	-	-	-	576,709	241,895	377,948	-	No	N/A	Yes	N/A
Provincial Grant - Du Plessis Muller Intersection	Provincial Government	-	-	-	-	-	-	-	24,093	No	N/A	Yes	N/A
Provincial Grant Hlasela Proj - Lehlohonolo Music Group	Provincial Government					7,200				No	N/A	Yes	N/A
Urban Settlment Development Grant	National Government	5,589,040	-	-	-	-	-	-	-	No	N/A	Yes	N/A
Total		320,779,592	218,770,451	316,673,402	6,000,000	185,760,965	222,715,030	191,797,464	263,068,025				