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

General Information

Legal form of entity	An organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Jurisdiction of entity	Area FS185, as a local municipality, as demarcated by the Demarcation Board and indicated in the demarcation map published for FS185.
Mayoral committee	
Mayor	Mohorosi MM
Speaker	Mashiya MN
Members of the executive committee	Mabaso MS Mahalapa DA
Grading of local authority	The Municipality is a grade 6 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
Accounting Officer	Mokomela BC (Acting)
Chief Finance Officer	Shongwe DK
Registered office	Municipal Offices 8 Preller Street Bothaville Free State 9660
Business address	8 Preller Street Bothaville Free State 9660
Postal address	PO Box 15 Bothaville 9660
Website	www.nala.org.za
Bankers	First National Bank Development Bank of Southern Africa Wesbank
Auditors	Auditor-General: Free State

General Information

Attorneys	Bakwa Attorneys Nkaiseng Commercial and Labour Attorney Phehello Molise Attorneys Podbielski Mhlambi Inc.
Enabling legislation	The Constitution of the Republic of South Africa The Division of Revenue Act of 2010 The Municipal Finance Management Act 56 of 2003 The Municipal Systems Act 32 of 2000
Members of Council	Brink LR Kulashe DJ Le Roux S Lenake MR Liphahe ME Mabeleng JM Maphisa FD Maselo KJ Masisi DM Mogoje TA Molutsi EM Mpesi MM Mpatane RD Ntshabiseng TF Nyamane MA Sebokolodi MS Sikade ZS Stander MM Thebehae TL Zodala MR

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
COGTA	Cooperative Governance and Traditional Affairs
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
GRAP	Generally Recognised Accounting Practice
INCA	Infrastructure Finance Corporation Limited
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act (Act no 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
SALGA	South Africa Local Government Association
SARS	South African Revenue Services
SCM	Supply Chain Management
SAMWU	South African Municipal Workers Union

Accounting Officer's Responsibilities and Approval

In terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), I am responsible for the presentation of these annual financial statements set out on pages 5 to 68, which have been prepared on the going concern basis, and approved by the accounting officer on 30 April 2012 and were signed on its behalf below.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 38 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mokomela BC (Acting)
Acting Municipal Manager

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2010.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintains the best interests of the local community mainly in the Nala area. and operates principally in the Free State province.

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

The deficit of the municipality was R 4 950 223 (2009: surplus R 221 967).

2. Going concern and financial sustainability

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

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

Although certain going concern ratios may appear unfavourable, the municipality 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.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance, with the exception of the accounting system as detailed in note 7 below, arising since the end of the financial year that will materially affect the financial statements.

4. Accounting policies

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act.

5. Mandatory provincial intervention

The municipality was placed under a mandatory provincial intervention in terms of section 139 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003). The main reason was Nala's inability to provide basic services and meet its financial commitments. An administrator was appointed on 8 December 2009.

6. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mokomela BC (Acting)	South Africa	Appointed 01 July 2009
Thithi M	South Africa	Resigned 01 July 2009

7. Accounting system

The municipality changed financial systems and was unable to print invoices and submit financial statements within the legislative financial deadline.

The municipality was unable to send out consumer invoices from July 2010 until February 2012.Consumer billing recommenced during March 2012, effectively for the period January 2012 onwards. The municipality is in the process of implementing an action plan to address the backlog in consumer billing for the period July 2010 to December 2011.

Nala Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Notes	2010	2009 Restated
Assets			
Current Assets			
Inventories	5	39 457 555	38 644 147
Other financial assets	6	1 307 014	1 280 835
Other receivables from exchange transactions	7	1 369 807	4 259 637
Consumer receivables	8	20 003 669	7 721 085
Cash and cash equivalents	9	4 068 225	6 687 247
		66 206 270	**58 592 951**
Non-Current Assets			
Investment property	10	10 509 000	10 509 000
Property, plant and equipment	11	843 195 371	810 260 181
Intangible assets	12	195 689	531 941
Other financial assets	6	91 921	74 407
		853 991 981	**821 375 529**
Total Assets		**920 198 251**	**879 968 480**
Liabilities			
Current Liabilities			
Current portion of non-current borrowings	14	18 062 205	10 382 562
Current portion of finance lease obligations	15	817 986	460 739
Trade and other payables from exchange transactions	16	76 432 058	37 691 038
VAT payable	17	9 351 487	11 848 471
Consumer deposits	18	1 120 770	1 075 586
Conditional grants and receipts	19	4 238 428	-
		110 022 934	**61 458 396**
Non-Current Liabilities			
Non-current borrowings	14	11 272 512	15 368 770
Non-current portion of finance lease obligations	15	367 660	1 185 646
Non-current provisions	20	2	2
		11 640 174	**16 554 418**
Total Liabilities		**121 663 108**	**78 012 814**
Net Assets		**798 535 143**	**801 955 666**
Net Assets			
Reserves			
Revaluation reserve	22	14 629 644	13 099 941
Accumulated surplus		783 905 499	788 855 725
Total Net Assets		**798 535 143**	**801 955 666**

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

Statement of Financial Performance

Figures in Rand	Notes	2010	2009 Restated
Revenue from exchange transactions			
Rental of facilities and equipment		6 881	21 736
Service charges	25	90 229 553	81 845 671
		90 236 434	81 867 407
Revenue from non-exchange transactions			
Fines		83 518	48 370
Government grants and subsidies	26	126 736 744	89 509 075
Property rates	27	10 655 164	9 596 855
		137 475 426	99 154 300
Dividends received	28	19 874	1 901
Interest received	28	142 521	938 803
Other income	29	711 395	625 858
Total income		**228 585 650**	**182 588 269**
Expenditure			
Bulk purchases	30	51 501 134	22 993 462
Contracted services	31	7 248 601	8 917 230
Debt impairment	32	44 397 291	37 893 055
Depreciation and amortisation	33	17 677 883	18 276 971
Employee related costs	34	59 263 368	50 043 098
Finance costs	35	7 412 521	4 354 738
General expenses	36	32 548 276	24 982 117
Grants and subsidies paid	37	-	3 594 458
Impairment loss/ Reversal of impairments		1 994 558	-
Remuneration of councillors	38	6 746 580	6 713 367
Repairs and maintenance	39	4 763 175	8 355 096
Total expenditure		**233 553 387**	**186 123 592**
Fair value (loss) / gain	40	17 514	3 757 290
(Deficit) surplus for the year		**(4 950 223)**	**221 967**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Government grant reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	-	28 132 150	28 132 150	(26 315 609)	1 816 541
Adjustments					
Change in accounting policy	-	(28 132 150)	(28 132 150)	28 132 150	-
Prior year adjustments	-	-	-	786 817 217	786 817 217
Balance at 01 July 2008 as restated	**-**	**-**	**-**	**788 633 758**	**788 633 758**
Changes in net assets					
Surplus/deficit for the year	-	-	-	221 967	221 967
Revaluations - Property, plant and equipment	13 099 941	-	13 099 941	-	13 099 941
Total changes	13 099 941	-	13 099 941	221 967	13 321 908
Opening balance as previously reported	-	28 132 150	28 132 150	18 939 624	47 071 774
Adjustments					
Change in accounting policy	-	(28 132 150)	(28 132 150)	28 132 150	-
Prior year adjustments	13 099 941	-	13 099 941	741 783 948	754 883 889
Balance at 01 July 2009 as restated	**13 099 941**	**-**	**13 099 941**	**788 855 722**	**801 955 663**
Changes in net assets					
Surplus/deficit for the year	-	-	-	(4 950 223)	(4 950 223)
Revaluations - Property, plant and equipment	1 529 703	-	1 529 703	-	1 529 703
Total changes	1 529 703	-	1 529 703	(4 950 223)	(3 420 520)
Balance at 30 June 2010	**14 629 644**	**-**	**14 629 644**	**783 905 499**	**798 535 143**
Note	22				

Cash Flow Statement

Figures in Rand	Notes	2010	2009 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		47 896 466	20 781 893
Grants		126 736 744	89 509 075
Interest income received		142 521	938 803
Dividends received		19 874	1 901
		174 795 605	111 231 672
Payments			
Employee costs		(59 069 186)	(49 664 101)
Suppliers		(56 541 131)	(64 384 221)
Finance costs		(7 412 521)	(4 354 738)
Other payments		(6 746 580)	(6 713 367)
Grants and subsidies paid		-	(3 594 458)
		(129 769 418)	(128 710 885)
Net cash flows from operating activities	41	**45 026 187**	**(17 479 213)**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(48 415 072)	(23 435 994)
Purchase of intangible assets	12	(332 046)	-
Purchase of assets impaired		(1 994 558)	-
Increase in other financial assets		(26 179)	4 522 403
Net cash flows from investing activities		**(50 767 855)**	**(18 913 591)**
Cash flows from financing activities			
Proceeds from non-current borrowings		3 583 385	2 737 310
Finance lease payments		(460 739)	1 758 577
Net cash flows from financing activities		**3 122 646**	**4 495 887**
Net increase/(decrease) in cash and cash equivalents		**(2 619 022)**	**(31 896 917)**
Cash and cash equivalents at the beginning of the year		6 687 247	38 584 164
Cash and cash equivalents at the end of the year	9	**4 068 225**	**6 687 247**

1. Basis of presentation

Nala Local Municipality ("the municipality") is a local government institution with its head office Bothaville in the Free State. The address of its registered office, principal place of business and its principal activities are disclosed under "General Information" in the annual report.

2. Basis of presentation

2.1 Statement of compliance

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

The annual financial statements were authorised for issue on 30 April 2012.

Basis for measurement
These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. The accounting policies applied are consistent with those used to present the previous year's financial statements, unless specifically stated. The details of any changes in accounting policies are in note 3.

2.2 Going concern assumption

The annual financial statements have been prepared on a going concern basis.

2.3 Functional and presentation currency

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

2.4 Offsetting

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

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

2.5 Use of estimates and judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented 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. Estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the period in which the estimate are revised and in any future period affected.

Significant judgements include:

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry specific economic conditions and other indicators present at the

2.5 Use of estimates and judgements (continued)

reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete inventory
The municipality is required to measure inventory at the lower of cost or net realisable value at each reporting date. To comply with this requirement 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 in the year in which it arose.

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

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

Impairment testing
The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Provisions
Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in the notes.

Useful lives and residual values
The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual value on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate and deferred payment terms
The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.
Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

2.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration (i.e. a non-exchange transaction), then their costs are their fair value as at the date of acquisition.

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or

2.6 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

2.7 Investment property

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

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

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

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost.

Where investment property is acquired at no cost or for a nominal cost (i.e. a non-exchange transaction), its cost is its fair value as at the date of acquisition.

Subsequent measurement

Investment property is subsequently measured at fair value with any change therein recognised in surplus or deficit for the period in which it arises.

The fair value of investment property reflects market conditions at the reporting date.

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

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

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

2.8 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.

Initial recognition and measurement

Property, plant and equipment is initially measured at cost.

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

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 or a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Subsequent costs

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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.

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

Subsequent measurement - Revaluation model

Subsequent to initial recognition, Property Plant and Equipment is carried at revalued amount being its fair value at the date of recognition less subsequent accumulated depreciation and impairment losses. Revaluations are performed every 5 years by registered valuators for every class separately.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to property revaluation reserve in the statement of changes in net assets, except to the extent that it reverses a revaluation decrease of the same asset previously

2.8 Property, plant and equipment (continued)

recognised in surplus or deficit.

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

Subsequent measurement - Cost model

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.

Depreciation commences when the asset is ready for its intended use.

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

Item	**Estimated useful life**
Infrastructure assets	
• Electricity	15-50 years
• Roads	1-20 years
• Structures	50 years
• Storm water drainage	50 years
• Sewer reticulation	40-100 years
• Waste water treatment works	3-80 years
• Water reticulation	20-80 years
Other property plant and equipment	
• Furniture and fittings	7-10 years
• IT equipment	3-5 years
• Landfill sites	15 years
• Lease assets	3-5 years
• Office equipment	3-5 years
• Plant and machinery	10-15 years
• Vehicles	5-7 years
• Buildings and Community	30 years

The 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.

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

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

Derecognition

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other revenue in surplus or deficit.

Leased assets

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

2.8 Property, plant and equipment (continued)

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2008. The change in accounting policy was made in accordance with the transitional provision as per Directive 4 of the GRAP reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, the municipality is not required to measure those property, plant and equipment assets for a period of three years from from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. Property, plant and equipment assets have been recognised at provisional amounts as a result of the requirements to apply GRAP.

Until such time as the measurement period expires and the plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1)
- The effect of Changes in Foreign Exchange Transactions (GRAP 4)
- Property, plant and equipment (GRAP 17)
- Segment Reporting (GRAP 18)
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exception from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment assets implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment assets not measured in accordance with the requirements of the Standards of GRAP 17 on Property, plant and equipment assets.

2.9 Intangible assets

An asset is identified as an intangible asset when it:

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

Initial recognition and measurement
An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost. An intangible asset acquired at no or nominal cost (i.e. a non-exchange transaction), the cost shall be its fair value as at the date of acquisition.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. Servitudes, however, that are created through an agreement/contract are recognised as intangible assets.

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

Intangible assets, with definite useful lives, 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, for the current and comparative periods:

Item	Useful life

2.9 Intangible assets (continued)

Computer software	3 years

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

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.

2.10 Leases

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

Finance leases - municipality as lessee

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

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

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

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

Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Operating leases - municipality as lessee

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

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

Operating leases - municipality as lessor

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

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

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

2.11 Provisions

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

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

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no

2.11 Provisions (continued)

longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation. Provisions are not recognised for future operating deficits.

Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the municipality from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

Reimbursements

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

Restructuring

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly.

Transitional provision

The municipality changed its accounting policy for provisions in 2008. The change in accounting policy is made in accordance with the transitional provision as per Directive 4 of the GRAP reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, the municipality is not required to measure those provisions for a period of three years from from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. Provisions have been recognised at provisional amounts as a result of the requirements to apply GRAP.

Until such time as the measurement period expires and the provisions are recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1)
- The effect of Changes in Foreign Exchange Transactions (GRAP 4)
- Provisions (GRAP 19)
- Segment Reporting (GRAP 18)
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exception from applying the measurement requirements of the Standard of GRAP on Provisions implies that any associated presentation and disclosure requirements need not be complied with for provisions not measured in accordance with the requirements of the Standards of GRAP 19 on Provisions.

2.12 Financial instruments

Classification

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

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment

2.12 Financial instruments (continued)

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

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit are financial assets that meet either of the following conditions:

- They are classified as held for trading; or

- Upon initial recognition they are designated as at fair value through surplus or deficit.

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

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

Loans and receivables

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

Cash and cash equivalents
Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the municipality's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity. Held-to-maturity investments are initially recognised at fair value plus directly attributable transaction costs. At subsequent reporting dates, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

2.12 Financial instruments (continued)

Financial liabilities

Financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

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

Gains and losses

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

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

Derecognition

Financial assets

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

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

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

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

Impairment of financial assets

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

Accounting Policies

2.13 Impairment - Non-financial assets

Cash generating assets

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

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 of its fair value less costs to sell and its value in use.

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

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

2.13 Impairment - Non-financial assets (continued)

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in 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 municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in 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.

Reversal of impairment loss

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

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

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

2.13 Impairment - Non-financial assets (continued)

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.

2.14 Revenue

Revenue from exchange transactions

Revenue from exchange transactions includes revenue from trading activities and other services provided.

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

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

Services

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

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

Service charges

Service charges relating to distribution of electricity and water are based on consumption. Meters are read on a monthly basis and actual consumption is recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of

Revenue from exchange transactions (continued)

consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read.

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

Service charges from sewerage and sanitation services are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is recognised on a monthly basis.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale.

Interest, rentals received and dividends

Interest earned

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

Rentals received

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

Dividends

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

Other

Tariff charges

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

Agency commission

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

Revenue from non-exchange transactions

Revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

2.15 Finance income and expenses

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

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

2.16 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.

Defined contribution plans

Payments to defined contribution retirement benefit plans are recognised in surplus or deficit when the services are rendered.

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted at least every three years by independent actuaries separately for each plan.

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

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.
Gains or deficits on the curtailment or settlement of a defined benefit plan are 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 all other respects, the asset is treated in the same way as plan assets. In the Statement of Financial Performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and deficits and unrecognised past service costs, and reduces by the fair value of plan assets.

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

Multi-employer plans

A multi-employer plan is classified as either a defined benefit plan or a defined contribution plan. If the plan is a defined benefit

Accounting Policies

2.16 Employee benefits (continued)

plan, an actuarial valuation should be obtained. Normal defined benefit accounting would be applied to the proportionate share of the obligation and assets relating to the municipality. If actuaries are unable to provide the municipality with an actuarial valuation, the municipality accounts for the plan as if it were a defined contribution plan.

2.17 Borrowing costs

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

2.18 Tax

Value added tax (VAT)

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

2.19 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued property, plant and equipment are depreciated, through a transfer from the revaluation reserve to the accumulated surplus or deficit.

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

2.20 Unauthorised expenditure

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

2.21 Irregular expenditure

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

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is recovered or written off as irrecoverable.

2.22 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.

2.23 Comparative figures

2.23 Comparative figures (continued)

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

The comparative figures have been restated.

2.24 Related parties

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

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

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality. We regard all individuals from the level of 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.

3. New standards and interpretations

3.1 Standards issued and not yet effective

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

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance. The effective dates are currently unknown. International Financial Reporting Standards will be applied from the effective date of the Standard as indicated below.

GRAP 18: Segment Reporting

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

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

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

GRAP 24: Presentation of Budget Information

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

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

Where the municipality prepares its budget and annual financial statements on a comparable basis, it is required to include the comparison as an additional column in the primary annual financial statements.

Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

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

GRAP 21: Impairment of non-cash-generating assets

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

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

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

3. New standards and interpretations (continued)

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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.

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

GRAP 26: Impairment of cash-generating assets

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

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

An 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 municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality should estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality should apply the appropriate discount rate to those future cash flows.

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.

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

GRAP 25: Employee benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the 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.

The standard also includes detailed requirements to be applied in the accounting for:
- Post-employment benefits;
- Other long-term employee benefits; and
- Termination benefits

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

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 entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is

3. New standards and interpretations (continued)

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 entity to a portion of another entity’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.

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

Figures in Rand	2010	2009

4. Changes in accounting policy

Government grants were previously accounted for using IAS 20

During the year, the municipality changed its accounting policy with respect to the treatment of government grants, in order to conform with the benchmark treatment in of GRAP23. The reason for the change is to provide reliable and more relevant information.

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

Statement of financial position

Government grant reserve		
Previously stated	-	28 132 150
Transferred to accumulated surplus	-	(28 132 150)
	-	-
Accumulated surplus		
Previously stated	-	18 939 624
Transferred from Government grant reserve	-	28 132 150
	-	**47 071 774**

5. Inventories

Unsold erven	36 127 813	36 127 813
Consumable stores - at cost	3 329 742	2 516 334
	39 457 555	**38 644 147**

The cost of inventories recognised as an expense during the period is R1,287,960 (2009: R409,142). Refer to note36.

Inventory pledged as security

No inventory was pledged as security for any financial liability.

6. Other financial assets

At fair value through surplus or deficit - designated		
Unlisted shares - Senwes Unlisted shares consist of 8236 (2009: 8236) equity shares in Senwesbel Limited and 7110 (2009: 7110) equity shares Senwes Limited.	91 921	74 407

Held to maturity

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

6. Other financial assets (continued)

	2010	2009
Old Mutual Flexidowment policy - 11433916	1 307 014	1 257 062

The endowment policy was taken out by the Bothaville Stadsraad and consist out of 120 monthly instalments of R5 000 each.

As per the valuation certificate dated 30 June 2008 the guaranteed maturity value is R745 549 and the fund value is R1 207 111.

The endowment policy has been ceded to the DBSA. The policy matured in 30 June 2008 but the proceeds have not been paid out to the municipality or DBSA and earn interest at 6.7% per annum on the maturity value.

Loans and receivables

	2010	2009
Housing selling scheme loans	-	23 773

These loans were granted to qualifying individuals and public organisations in terms of the housing program. These loans attract interest of between 5% and 7% per annum and are repayable over a period of 10 years.

	2010	2009
Total other financial assets	**1 398 935**	**1 355 242**
Non-current assets		
At fair value through surplus or deficit - designated	91 921	74 407
Current assets		
Held to maturity	1 307 014	1 257 062
Loans and receivables	-	23 773
	1 307 014	**1 280 835**
	1 398 935	**1 355 242**

Fair value information

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

Fair values are determined annually at reporting date.

The fair value of unlisted shares are determined by reference to their quoted prices.

The fair values of fixed deposits and short term deposits approximate their carrying values.

The following classes of financial assets at fair value through surplus or deficit are measured to fair value using quoted market prices:

- Class 1 - Unlisted shares

Figures in Rand	2010	2009

6. Other financial assets (continued)

Fair value hierarchy of financial assets at fair value through surplus or deficit

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 - quoted prices unadjusted in active markets for identical assets.

Level 2 - inputs other than quoted prices included in level 1 that are observable for the assets either directly as prices or indirectly derived from prices.

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

Level 1		
Class 1 Unlisted shares with quoted prices	91 921	74 407

The maximum exposure to credit risk at the reporting date is the carrying amount of the held to maturity financial assets.

Fair value of held to maturity investments

Old Mutual endowment policy	1 307 014	1 257 062

There were no gains or losses realised on the disposal of held to maturity financial assets in 2009 and 2009.

The maximum exposure to credit risk at the reporting date is the carrying amount of the held to maturity financial assets.

Figures in Rand	2010	2009

6. Other financial assets (continued)

Fair values of loans and receivables

Loans and receivables	-	23 773

None of the financial assets were pledged as security for any financial liability and no securities are held for any of the loans and receivables.

7. Other receivables from exchange transactions

Ambulance debtor	638 016	638 016
Arrear consumer accounts	41 826 854	45 930 256
Employee costs in advance	21 147	-
Sundry receivables	2 417 991	139 429
Less provision for bad debt	(43 534 201)	(42 448 064)
	1 369 807	**4 259 637**

Other receivables pledged as security

None of the other receivables were pledged as security for any financial liability.

Other receivables impaired

As of 30 June 2010, trade and other receivables of R 42 523 780 (2009: R 42 448 064) were impaired and provided for.

8. Consumer receivables

Gross balances		
Electricity	10 876 191	6 618 500
Rates	24 546 181	25 934 902
Refuse	68 677 988	52 948 418
Sewerage	41 721 747	32 077 496
Water	40 726 054	27 807 678
Other	9 340 603	5 774 534
VAT	16 898 488	9 269 551
	212 787 252	**160 431 079**
Less: Provision for debt impairment		
Electricity	(9 926 330)	(6 331 682)
Rates	(22 402 463)	(24 810 992)
Refuse	(62 680 064)	(50 653 857)
Sewerage	(38 078 020)	(30 687 393)
Water	(37 169 284)	(26 602 610)
Other	(7 104 747)	(4 755 612)
VAT	(15 422 675)	(8 867 848)
	(192 783 583)	**(152 709 994)**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

8. Consumer receivables (continued)

Net balance		
Electricity	949 861	286 818
Rates	2 143 718	1 123 910
Refuse	5 997 924	2 294 561
Sewerage	3 643 727	1 390 103
Water	3 556 770	1 205 068
Other	2 235 856	1 018 922
VAT	1 475 813	401 703
	20 003 669	**7 721 085**

Electricity		
Current (0 -30 days)	8 793 513	5 096 587
31 - 60 days	334 791	222 161
61 - 90 days	276 168	57 633
91 days +	1 471 719	1 242 119
	10 876 191	**6 618 500**

Rates		
Current (0 -30 days)	17 569 701	6 793 814
31 - 60 days	1 639 811	708 384
61 - 90 days	162 045	601 538
91 days +	5 174 624	17 831 166
	24 546 181	**25 934 902**

Refuse		
Current (0 -30 days)	3 410 336	6 428 086
31 - 60 days	1 428 526	1 101 506
61 - 90 days	1 439 486	1 080 934
91 days +	62 399 640	44 337 892
	68 677 988	**52 948 418**

Sewerage		
Current (0 -30 days)	3 603 308	6 348 051
31 - 60 days	1 024 197	696 161
61 - 90 days	994 691	677 797
91 days +	36 099 551	24 355 487
	41 721 747	**32 077 496**

Water

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

8. Consumer receivables (continued)

Current (0 -30 days)	35 967 335	24 866 651
31 - 60 days	586 085	495 525
61 - 90 days	615 844	254 835
91 days +	3 556 790	2 190 667
	40 726 054	**27 807 678**

Summary of consumer receivables by customer classification

Consumers/Households		
Current (0 -30 days)	11 829 863	9 948 177
31 - 60 days	5 539 887	4 406 704
61 - 90 days	4 951 733	4 063 262
91 days +	167 291 212	126 079 833
	189 612 695	144 497 976
Less: Provision for debt impairment	(176 471 201)	(141 425 860)
	13 141 494	**3 072 116**

Industrial/Commercial		
Current (0 -30 days)	4 078 687	3 660 838
31 - 60 days	1 247 028	1 352 149
61 - 90 days	1 007 776	1 203 190
91 days +	12 292 795	6 676 420
	18 626 286	12 892 597
Less: Provision for debt impairment	(16 312 382)	(11 284 134)
	2 313 904	**1 608 463**

National and Provincial government		
Current (0 -30 days)	377 285	470 021
31 - 60 days	115 828	211 786
61 - 90 days	131 308	171 163
91 days +	3 334 961	2 181 912
	3 959 382	**3 034 882**

Total		
Current (0 -30 days)	16 285 835	14 079 036
31 - 60 days	6 902 744	5 970 639
61 - 90 days	6 090 817	5 437 614
91 days +	182 918 969	134 938 164
	212 198 365	160 425 453
Less: Provision for debt impairment	(192 783 583)	(152 709 994)

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

8. Consumer receivables (continued)

	19 414 782	**7 715 459**

Reconciliation of debt impairment provision		
Balance at beginning of the year	152 709 994	112 225 886
Contributions to provision	43 311 154	41 354 683
Debt impairment written off against provision	(3 237 565)	(870 575)
	192 783 583	**152 709 994**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security for any financial liability.

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

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

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash on hand	9 935	9 935
Bank balances	1 315 768	5 996 164
Short-term deposits	2 742 522	681 148
	4 068 225	**6 687 247**

No cash at bank and short term deposits were pledged as security for any financial liability.

The municipality had the following bank accounts

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Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	**30 June 2009**	**30 June 2008**	**30 June 2010**	**30 June 2009**	**30 June 2008**
FNB - Cheque account - 620-259-90765	1 315 767	5 996 164	4 016 016	1 315 767	5 996 164	6 197 776
FNB - Call account - 620-262-22521	708 203	669 967	4 519 739	708 203	669 967	4 519 739
FNB - Call account - 620-028-39506	2 034 320	11 181	8 000	2 034 320	11 181	8 000
Total	**4 058 290**	**6 677 312**	**8 543 755**	**4 058 290**	**6 677 312**	**10 725 515**

10. Investment property

	2010			2009		
	Valuation		**Carrying value**	**Valuation**		**Carrying value**
Investment property	10 509 000	-	10 509 000	10 509 000	-	10 509 000

Reconciliation of investment property - 2010

	Opening balance	**Total**
Investment property	10 509 000	10 509 000

Reconciliation of investment property - 2009

	Opening balance	**Fair value adjustments**	**Total**
Investment property	6 752 984	3 756 016	10 509 000

Pledged as security

No investment property asset was pledged as security for any financial liability.

Revaluations

Investment property is carried at fair value.

The effective date of the revaluation was 1 July 2009. Revaluations were performed by an independent valuers, SCB Property valuers and consultants CC and Dikgadi Projects CC. They are not connected to the municipality. The valuation was performed using the market or income approach, where assumptions are based on the current market conditions. The cost approach were used where little or no market information were available e.g. churches and schools.

11. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Buildings	8 078 560	-	8 078 560	8 078 560	-	8 078 560
Community	10 878 580	(333 750)	10 544 830	10 088 037	(75 535)	10 012 502
Infrastructure	785 967 238	(32 908 565)	753 058 673	780 350 900	(17 192 189)	763 158 711
Infrastructure under construction	68 650 807	-	68 650 807	25 852 230	-	25 852 230
Land	1 528 780	-	1 528 780	1 134 440	-	1 134 440
Other property, plant and equipment	2 508 993	(1 175 272)	1 333 721	2 508 836	(485 098)	2 023 738
Total	**877 612 958**	**(34 417 587)**	**843 195 371**	**828 013 003**	**(17 752 822)**	**810 260 181**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Transfer in	Transfer out	Revaluations	Depreciation	Total
Buildings	8 078 560	-	-	-	269 285	(269 285)	8 078 560
Community	10 012 502	-	-	-	866 078	(333 750)	10 544 830
Infrastructure	763 158 711	-	5 616 338	-	-	(15 716 376)	753 058 673
Infrastructure under construction	25 852 230	48 414 915	-	(5 616 338)	-	-	68 650 807
Land	1 134 440	-	-	-	394 340	-	1 528 780
Other property, plant and equipment	2 023 738	157	-	-	-	(690 174)	1 333 721
	810 260 181	**48 415 072**	**5 616 338**	**(5 616 338)**	**1 529 703**	**(17 009 585)**	**843 195 371**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Revaluations	Depreciation	Total
Buildings	2 987 700	428 000	4 776 717	(113 857)	8 078 560
Community	1 066 053	1 200 000	7 821 984	(75 535)	10 012 502
Infrastructure	780 350 900	-	-	(17 192 189)	763 158 711
Infrastructure under construction	4 197 236	21 654 994	-	-	25 852 230
Land	480 200	153 000	501 240	-	1 134 440
Other property, plant and equipment	2 508 836	-	-	(485 098)	2 023 738
	791 590 925	**23 435 994**	**13 099 941**	**(17 866 679)**	**810 260 181**

Pledged as security

No property, plant and equipment was pledged as security for any financial liability, except for leased assets as stated in note 15.

Assets subject to finance lease (Net carrying amount)

	2010	2009
Other property, plant and equipment	849 448	1 493 820

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

Infrastructure under construction refers to infrastructure capital work in progress which is still in the process of being completed.

Revaluations

The effective date of the revaluation was 1 July 2009. Revaluations were performed by an independent valuers, SCB Property valuers and consultants CC and Dikgadi Projects CC. They are not connected to the municipality. The valuation was performed using the market or income approach, where assumptions are based on the current market conditions. The cost approach were used where little or no market information were available e.g. churches and schools.

Refer to Appendix B for more details, including details on leased assets and depreciation on leased assets.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

12. Intangible assets

	2010			2009		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	1 562 953	(1 367 264)	195 689	1 230 907	(698 966)	531 941

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Amortisation	Total
Computer software	531 941	332 046	(668 298)	195 689

Reconciliation of intangible assets - 2009

	Opening balance	Amortisation	Total
Computer software	942 234	(410 293)	531 941

Pledged as security

No intangible asset was pledged as security for any financial liability.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

13. Financial assets by category

2010

	Loans and receivables	Held to maturity investments	Total
Cash and cash equivalents	4 068 225	-	4 068 225
Consumer receivables	20 003 669	-	20 003 669
Other financial assets - Current portion	-	1 307 014	1 307 014
Other receivables from exchange transactions	1 369 807	-	1 369 807
	25 441 701	**1 307 014**	**26 748 715**

2009

	Loans and receivables	Held to maturity investments	Total
Cash and cash equivalents	6 687 247	-	6 687 247
Consumer receivables	7 721 085	-	7 721 085
Other financial assets - Current portion	23 773	1 257 062	1 280 835
Other receivables from exchange transactions	4 259 637	-	4 259 637
	18 691 742	**1 257 062**	**19 948 804**

Figures in Rand	2010	2009

14. Non-current borrowings

Measured at amortised cost		
DBSA - 100565/101	29 258 933	25 651 647
The loan is from the Development Bank of Southern Africa and repayments are made on a monthly basis. The loan will be redeemed on 30 September 2013 and bears interest at 12.5%.		
INCA - WSB111Z	75 784	99 685
The loan is from the Infrastructure Finance Corporation Limited and repayments are made on a six-monthly basis. The loan will be redeemed on 31 December 2011 and bears interest at 17.92%.		
	29 334 717	**25 751 332**

The municipality defaulted on the payment of non-current borrowings; terms were not renegotiated although additional interest was charged.

Refer to Appendix D for more details.

Non-current liabilities		
At amortised cost	11 272 512	15 368 770
Current liabilities		
At amortised cost	18 062 205	10 382 562
	29 334 717	**25 751 332**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Finance lease obligations

Minimum lease payments due		
within one year	1 324 810	1 407 569
in second to fifth year inclusive	425 630	1 750 441
	1 750 440	3 158 010
Less: future finance charges	(564 794)	(1 511 625)
Present value of minimum lease payments	**1 185 646**	**1 646 385**
Present value of minimum lease payments due		
within one year	817 986	460 738
in second to fifth year inclusive	367 660	1 185 647
	1 185 646	**1 646 385**
Non-current liabilities	367 660	1 185 646
Current liabilities	817 986	460 739
	1 185 646	**1 646 385**

It is the municipality's policy to lease certain motor vehicles and equipment under finance leases.

The average lease term is 3 years for equipment and 5 years for vehicles. The effective interest rate is 8% (2009: 8%) for equipment and 15.11% (2009:15.11%) for vehicles.

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent. Renewal or purchase options are not described in the contract.

The municipality's obligations under finance leases are secured by the leased assets.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

16. Trade and other payables from exchange transactions

Accrued audit fees	-	1
Accrued bonuses	1 368 749	1 174 562
Accrued leave pay	4 662 052	3 826 125
Accrued salary expense	469 422	-
Deposits received	158 566	179 865
Other creditors	6 539 629	4 244 300
Payments received in advance	967 106	803 498
Performance bonuses	-	927 040
Retention's	3 804 561	1 345 984
Trade payables	58 461 973	25 189 663
	76 432 058	**37 691 038**

The entity defaulted on the payment of suppliers within 30 days. The average term of payment of suppliers for the current year was 35 days (2009: 16 days).

Performance bonuses were awarded to qualifying employees after an assessment was done in 2008. These bonuses were not approved by council and have not been paid out.

The performance bonus provision was reversed as the municipality was placed under mandatory provincial intervention in terms of section 139 of the MFMA.

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

17. VAT payable

Tax refunds payables	9 351 487	11 848 471

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

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

18. Consumer deposits

Electricity and water	1 120 770	1 075 586

Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held in lieu of electricity and water deposits.

Figures in Rand	2010	2009

19. Conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructure grant (MIG)	4 238 428	-

Movement during the year

Balance at the beginning of the year	-	503 885
Received during the year	4 238 428	-
Income recognition during the year	-	(503 885)
	4 238 428	**-**

The nature and extent of government grants recognised in the financials are an indication of other forms of government assistance from which the municipality has directly benefited.

See note 26 for the reconciliation of other grants from National and Provincial Government.

The amounts will be recognised as revenue when the qualifying expenditure is incurred.

No grants were withheld due to unfulfilled conditions.

20. Non-current provisions

Reconciliation of non-current provisions - 2010

	Opening Balance	Total
Environmental rehabilitation - Landfill sites	2	2

Reconciliation of non-current provisions - 2009

	Opening Balance	Total
Environmental rehabilitation - Landfill sites	2	2

In terms of the Mineral and Petroleum Recourses Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore landfill sites and quarries.

Landfills consist out of:

- Bothaville landfill site
- Wesselsbron landfill site

The municipality applied the transitional provision as per Directive 4 in the measurement of site restoration and dismantling costs. Site restoration and dismantling costs has accordingly been recognised at a provisional amount of R1 per 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.

21. Financial liabilities by category

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

2010

	Financial liabilities at amortised cost	Total
Consumer deposits	1 120 770	1 120 770
Current portion of finance lease obligations	817 986	817 986
Current portion of non-current borrowings	18 062 205	18 062 205
Non-current borrowings	11 272 512	11 272 512
Trade and other payables from exchange transactions	76 432 058	76 432 058
VAT payable	9 351 487	9 351 487
	117 057 018	**117 057 018**

2009

	Financial liabilities at amortised cost	Total
Consumer deposits	1 075 586	1 075 586
Current portion of finance lease obligations	460 739	460 739
Current portion of non-current borrowings	10 382 562	10 382 562
Non-current borrowings	15 368 770	15 368 770
Trade and other payables from exchange transactions	37 691 038	37 691 038
VAT payable	11 848 471	11 848 471
	76 827 166	**76 827 166**

22. 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 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.

	2010	2009
Opening balance	13 099 941	-
Change during the year	1 529 703	13 099 941
	14 629 644	**13 099 941**

Revaluation surplus relating to property, plant and equipment

	2010	2009
Revaluation surplus beginning of period	12 910 549	-
Movements in the reserve for the year	926 668	12 910 549
	13 837 217	**12 910 549**

23. Retirement benefits

Defined benefit plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans.

The following are defined benefit plans:

- South African Local Authorities Pension Fund (SALA)
- Government Employment Pension Fund (GEPF)

These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

Some employees belong to the South African Local Authorities Pension Fund (SALA). The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The actuarial valuations states that the fund is currently 96% funded by employer contributions. This has remained stable since the previous valuation date. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation. The total liabilities of the fund is R 7 418 million (2009: R 6 568 million) which is financed by net assets of R 7 110 million (2009: R 6 304 million).

Some employees belong to the Government Employment Pension Fund (GEPF). The latest actuarial valuation of the fund was on 31 March 2010. These valuations indicate that the fund are in a sound financial position. The actuarial valuation states that that the funding level has remained at 100%. The total liabilities of the fund is R 801 004 million (2009: R 707 042 million) which is financed by net assets of R 801 004 million (2009: R 707 042 million).

According to the actuaries it is not possible to report separately for each municipality on these funds, thus the reason for treating

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

23. Retirement benefits (continued)

it as a contribution plans in terms of IAS 19(AC116).30.

An amount of R 5 695 955 (2009:R 4 517 047) was contributed by Council in respect of Councillors and employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

Defined contribution plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans.

The following are defined contribution plans:

- Municipal Councilors Pension Fund
- Free State Municipal Pension Fund
- Free State Municipal Provident Fund
- SAMWU National Provident Fund
- Sanlam Provident Fund

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

24. Revenue

Fines	83 518	48 370
Government grants and subsidies	126 736 744	89 509 075
Property rates	10 655 164	9 596 855
Rental of facilities and equipment	6 881	21 736
Service charges	90 229 553	81 845 671
	227 711 860	**181 021 707**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	90 229 553	81 845 671
Rental of facilities and equipment	6 881	21 736
	90 236 434	**81 867 407**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	10 655 164	9 596 855
Fines	83 518	48 370
Government grants and subsidies	126 736 744	89 509 075
	137 475 426	**99 154 300**

25. Service charges

Refuse removal	18 844 441	17 793 043
Sale of electricity	36 213 778	31 720 453
Sale of water	21 781 219	19 679 877
Sewerage and sanitation charges	13 390 115	12 652 298
	90 229 553	**81 845 671**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

26. Government grants and subsidies

COGTA grants	2 000 000	-
Equitable share	88 291 732	66 429 000
Finance management grant	1 500 000	500 000
Government grants (capital) 9	(55 560)	-
Lotto grant	-	165 506
Municipal infrastructure grant (MIG)	31 615 572	20 554 569
Municipal systems improvement grant	735 000	735 000
National electrification grant	2 650 000	1 125 000
	126 736 744	**89 509 075**

Equitable share

In terms of the Constitution of the Republic of South Africa (No. 108), this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income.

Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	-	338 379
Current-year receipts	35 854 000	20 216 190
Conditions met - transferred to revenue	(31 615 572)	(20 554 569)
	4 238 428	**-**

Conditions still to be met, remain in liabilities - see note 19

The unspent grant has been scheduled to be utilised in the 2010/2011 financial year.

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services.

National electrification grant

Current-year receipts	2 650 000	1 125 000
Conditions met - transferred to revenue	(2 650 000)	(1 125 000)
	-	-

The purpose of this grant is to facilitate the municipality's infrastructure needs.

Municipal systems improvement grant

Current-year receipts	735 000	735 000
Conditions met - transferred to revenue	(735 000)	(735 000)
	-	-

The purpose of the grant is to support municipal systems restructuring initiatives of municipalities. Funds are made available on

Figures in Rand	2010	2009

26. Government grants and subsidies (continued)

the basis of an approved restructuring plan that addresses challenges in a sustainable manner.

Finance management grant

Current-year receipts	1 500 000	500 000
Conditions met - transferred to revenue	(1 500 000)	(500 000)
	-	-

This grant is to be used to train and appoint staff members in the, and for the support of the finance department of the municipality.

Lotto grant

Balance unspent at beginning of year	-	165 506
Conditions met - transferred to revenue	-	(165 506)
	-	-

The purpose of this grant is to facilitate in the enhancement of the community.

COGTA grants

Current-year receipts	2 000 000	-
Conditions met - transferred to revenue	(2 000 000)	-
	-	-

The purpose of these grants are to assist the municipality to fund the increment in councillors allowances of R1 000 000 and provide CFO support function the value of R1 000 000.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

27. Property rates

Rates received

Property rates received	10 655 164	9 596 855

Valuations

Business/Commercial	2 300 297 428	22 586 502
Municipal	36 460 881	-
Other	196 261 874	-
Residential	877 654 414	325 411 017
Government/State	27 282 495	3 703
	3 437 957 092	**348 001 222**

Valuations on land and buildings are normally performed every five years. The latest valuation roll is effective for the period on 1 July 2009 to 30 June 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alter actions and subdivision.

The first R40,000 of the rateable value of residential property are exempted from taxes. A 100% rebate is granted to churches, public benefit organisations and municipal property. Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agric land and 40% to other sectional title properties.

Rates are levied on a monthly basis and no interest is levied on outstanding amounts.

From 1 July 2009 the basic rates were adjusted as follows:

- R0.00622 on the value of rateable residential property
- R0.01867 on the value of rateable business/commercial property
- R0.02489 on the value of vacant stands-
- R0.00899 on the value of rateable government property
- R0.00156 on the value of farm property
- R0.00088 on the value of mixed use property
- R0.00622 on the value of sectional title property within agric land
- R0.00622 on the value of other sectional title property
- R0.00622 on the value of educational property

28. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	19 874	1 901
Finance income		
Bank deposits	142 521	938 803
	162 395	**940 704**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

29. Other income

Administration fees received	6 631	8 468
Advertisement	1 132	1 719
Burial income	416 895	273 712
Connection fees	28 349	42 414
Fees earned	104 905	26 750
Ground gravel sales	6 301	4 584
Levies	5 234	39 003
Private work	25 220	23 806
Sundry income	116 728	192 143
Testing of meters	-	5 486
Valuation certificates	-	7 773
	711 395	**625 858**

30. Bulk purchases

Electricity	26 799 361	15 862 582
Water	24 701 773	7 130 880
	51 501 134	**22 993 462**

31. Contracted services

Information technology services	1 163 384	-
Meter readings	2 324 057	5 709 916
Operating leases	3 508 357	3 046 250
Other contractors	-	22 948
Security	252 803	138 116
	7 248 601	**8 917 230**

32. Debt impairment

Debt impairment	44 397 291	37 893 055

33. Depreciation and amortisation

Intangible assets	668 298	410 293
Property, plant and equipment	17 009 585	17 866 678
	17 677 883	**18 276 971**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

34. Employee related costs

Acting allowances	836 961	-
Basic	40 249 743	35 938 810
Bonuses	2 747 029	2 400 370
Housing benefits and allowances	413 604	311 298
Medical aids	2 090 762	1 783 712
Overtime payments	4 566 449	2 864 069
Pension	5 179 398	4 090 572
SDL contributions	132 052	156 605
Travel, motor car, accommodation, subsistence and other allowances	2 632 618	2 175 349
UIF contributions	414 752	322 313
	59 263 368	**50 043 098**

Remuneration of Municipal Manager - Thithi M

Annual remuneration	-	345 264
Contributions to UIF, medical and pension funds	-	4 119
Travel, motor car, accommodation, subsistence and other allowances	-	322 624
	-	**672 007**

Mr. Mokebe Thithi resigned as the Municipal Manager on 1 July 2009.

Mr. David Shongwe, the CFO, was appointed as the acting Municipal Manager but was suspended on 4 December 2009.

Remuneration of Chief Finance Officer - Shongwe DK

Annual remuneration	276 504	267 117
Bonus	18 374	18 811
Contributions to UIF, medical and pension funds	1 953	1 539
Travel, motor car, accommodation, subsistence and other allowances	413 678	269 393
	710 509	**556 860**

Remuneration of executive director Corporate Services - Mosoang N

Annual remuneration	240 076	217 944
Bonus	1 740	34 260
Contributions to UIF, medical and pension funds	1 530	4 119
Travel, motor car, accommodation, subsistence and other allowances	293 826	247 196
	537 172	**503 519**

Remuneration of executive director Engineering Services - Nxumalo SH

Annual remuneration	262 704	226 993
Bonus	1 740	34 260

Figures in Rand	2010	2009

34. Employee related costs (continued)

Contributions to UIF, medical and pension funds	1 502	4 119
Travel, motor car, accommodation, subsistence and other allowances	305 975	245 951
	571 921	**511 323**

35. Finance costs

Finance leases	11 048	809 592
Trade and other payables	7 401 473	3 545 146
	7 412 521	**4 354 738**

36. General expenses

Advertising	65 453	72 612
Auditors remuneration	2 331 145	1 473 642
Bank charges	290 147	288 841
Chemicals	29 331	54 592
Congresses	437 756	193 741
Consulting and professional fees	6 358 590	5 262 189
Consumables - Stock and material	1 287 960	409 142
Departmental usage	1 674 362	1 771 729
Entertainment	178 908	406 245
Fines and penalties	10 323	264
Fuel and oil	2 062 979	128 314
IT expenses	1 156 938	1 204 805
Indigent contributions	129 108	6 450
Insurance	373 274	382 134
Legal fees	809 051	1 195 241
Membership fees	4 274	7 542
Motor vehicle expenses	1 666 315	2 402 454
Postage and courier	79 600	62 657
Printing and stationery	811 661	838 244
Provision for leave	890 496	795 372
Social responsibility	1 557 280	483 146
Special programs	3 014 356	2 264 131
Sundry expenses	599 987	629 969
Telephone and fax	1 794 771	1 906 444
Valuation roll	4 934 211	2 742 217
	32 548 276	**24 982 117**

37. Grants and subsidies paid

Other subsidies		
Free services - Indigents	-	3 594 458

The free electricity and water services are recoverable from the equitable share grant.

Figures in Rand	2010	2009

38. Remuneration of councillors

Mayor	649 036	398 361
Executive Committee Members	1 318 842	655 398
Speaker	573 853	312 132
Part time councillors	1 026 913	2 363 590
Travel expenses	2 275 334	2 176 502
Cell phone expenses	186 021	233 701
Councillors' contribution to medical aid and pension	716 581	573 683
	6 746 580	**6 713 367**

In-kind benefits

The Executive Mayor and Speaker are full time employees of the municipality and each are provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has a full-time bodyguard and has the use of a separate Council owned vehicle for official duties.

39. Repairs and maintenance

Repairs and maintenance per category		
Infrastructure	3 449 074	5 183 796
Land and buildings	113 770	343 248
Equipment	291 043	21 560
Vehicles	889 836	2 701 178
Furniture and other	19 452	128 422
	4 763 175	**8 378 204**

40. Fair value adjustments

Investment property - Fair value model	-	3 756 016
Other financial assets		
• Other financial assets - Held for trading	17 514	1 274
	17 514	**3 757 290**

41. Cash generated from (used in) operations

(Deficit) surplus for the year	(4 950 223)	221 967
Adjustments for:		
Restatement of opening balance	-	25 731 872
Depreciation and amortisation	17 677 883	18 276 971
Increase in leave provision	835 927	711 132
Increase in bonus provision	194 182	378 997
Fair value adjustments	(17 514)	(3 757 290)
Impairment deficit	1 994 558	-

Figures in Rand	2010	2009

41. Cash generated from (used in) operations (continued)

Debt impairment	40 073 589	41 354 683
Provision for debt impairment - Other receivables	1 086 137	(4 332 203)
Bad debts written off	3 237 565	870 575
Changes in working capital:		
Inventories	(813 408)	(1 665 717)
Other receivables from exchange transactions	1 803 693	5 694 130
Consumer receivables	(55 593 738)	(77 050 727)
Trade and other payables from exchange transactions	37 710 908	(25 117 533)
VAT receivable / payable	(2 496 984)	1 640 464
Conditional grants and receipts	4 238 428	(503 885)
Consumer deposits	45 184	67 351
	45 026 187	**(17 479 213)**

42. Capital commitments

42.1 Commitments in respect of capital expenditure

Approved and contracted for		
• Infrastructure	42 812 415	45 603 927
Approved but not yet contracted for		
• Infrastructure	108 742 363	130 279 322

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, external loans and government grants.

This expenditure will be financed from		
• Own resources	104 503 935	130 279 322
• Conditional grants	4 238 428	-
	108 742 363	**130 279 322**

Operating leases - as lessor (revenue)

Minimum lease payments due		
within one year	-	186 460
in second to fifth year inclusive	-	279 690
	-	**466 150**

Grazing camps near Bothaville and Wesselsbron are leased to various individuals over a period of 3-5 years with no escalation per annum.

43. Contingencies

Contingent liabilities

Section 7(4) of the SALBC agreement, leave accumulated subsequent to 1 January 2004 may be accumulated to a maximum of forty-eight (48) days. The contingent amount payable to employees who exceed the forty-eight days amounted to R1 394 243 (2009: R868 526). The timing and amount of the outflow is uncertain as it is not certain how much leave will have to be repayed and how much leave will be taken.

44. Related parties

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

Related parties include:

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

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

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004.

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Relationships	
Accounting Officers	Refer to accounting officers' report note
Post employment benefit plan for employees, councilors and/or other related parties	Refer to note 23
Members of key management	Refer to note 34
Members of Council	Refer to Statement of financial performance 38

Related party balances

No related party balances were identified for the reporting period.

Related party transactions

No related party transactions were identified for the reporting period.

45. Going concern and financial sustainability

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

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

The municipality is currently experiencing financial difficulties, indicators are as follow:

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

45. Going concern and financial sustainability (continued)

- The municipality incurred a loss during the year of R4 950 223;
- The increase in trade and other payables from R 37 691 037 to R76 432 058;
- The creditors are not paid within 30 days as required by the MFMA;
- The debt collection period has not improved during the current year;
- The gross outstanding debtors increased from R 160 431 079 to R 212 787 252;
- The provision for doubtful debts has been estimated at R 192 783 583 (2009: R 152 709 994). This equates to approximately 91% of gross outstanding debtors (2009: 95%) before accrued water and electricity.

At year end the municipality's current liabilities amounted to R 110 022 934 (2009: R 61 458 396), whilst the current assets amounted to R 66 206 270 (2009: R 58 592 951).

Furthermore due to various reasons the Annual Financial Statements were submitted 20 months after the legislative deadline and the Auditor General expressed a disclaimer of opinion in the 2008/2009 financial period.

The municipality is exploring alternative options to improve it's financial position.

Mitigating factors for going concern risks identified include:

- The municipality is one of the municipalities supported by COGTA and Provincial Treasury as part of Operation Clean Audit by means of various interventions.

Although certain going concern ratios may appear unfavourable,the municipality 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.

46. 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 signing the financials in respect of matters which would require adjustments to or disclosure in the annual financial statements.

47. Unauthorised expenditure

Reconciliation of unauthorised expenditure

	2010	2009
Unauthorised expenditure - current year	4 984 898	-

Incident	**Disciplinary steps / Criminal proceedings**
Unbudgeted expenditure	None

It has been confirmed that the overall budget for expenditure was overspend with R4 984 898 (2009: R42 406 878), but in terms of per vote expenditure there were overspend as follows:

	2010	2009
Employee related costs	14 124 247	8 123 956
Remuneration of Councilors	2 751 391	2 372 865
Depreciation	12 800 438	17 236 971

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
47. Unauthorised expenditure (continued)		
Bulk purchases	15 841 072	-
Interest on external borrowings	7 412 521	4 204 738
General expenses - Other	5 440 204	43 103 941
	58 369 873	**75 042 471**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

48. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

	2010	2009
Opening balance	5 121 022	3 091 520
Fruitless and wasteful expenditure - current year	6 057 496	2 029 502
	11 178 518	**5 121 022**

Details of fruitless and wasteful expenditure incidents 2007/08	**Disciplinary steps taken / criminal proceedings**	
Non payment of DBSA loan.	None.	3 091 520

Details of fruitless and wasteful expenditure incidents 2008/09	**Disciplinary steps taken / criminal proceedings**	
Non payment of DBSA loan.	None.	488 832
Non cancellation of finance lease agreements.	The matter was identified during the 2009 audit and needs to be investigated.	580 691
Interest paid on overdue supplier accounts.	The matter was identified during the 2009 audit and needs to be investigated.	537 689
Penalties and interest paid on the late submission of VAT.	None.	144 671
Penalties and interest paid on the late submission of PAYE, UIF and SDL.	None.	277 619

Details of fruitless and wasteful expenditure incidents 2009/10	**Disciplinary steps taken / criminal proceedings**	
Non payment of DBSA loan.	None.	1 452 638
Non cancellation of finance lease agreements.	None.	1 050 232
Interest paid on overdue supplier accounts.	The matter was identified in the current year and needs to be investigated.	2 844 404
Penalties and interest paid on the late submission of PAYE, UIF and SDL.	None.	699 895
Fines and penalties on late payment.	None.	10 327
Costs to complete capital projects, undertaken by other contractors, of an inferior standard	None	104 350

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

49. Irregular expenditure

	2010	2009
Opening balance	87 400	-
Irregular Expenditure - current year	6 815 290	87 400
	6 902 690	**87 400**

Analysis of expenditure awaiting condonation per age classification

	2010	2009
Current year	6 815 290	-
Prior years	87 400	-
	6 902 690	**-**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Payments made to suppliers for which no supporting documentation could be provided.	None.	5 109 786
Overpayment of Councillors - pension and medical aid contributions paid on top of salary remuneration	None	1 064 989
Non-compliance to supply chain management policy per the MFMA - no orders or 3 quotations obtained for purchases	None	640 515
		6 815 290

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2010	2009
Opening balance	7 097	(16 658)
Current year membership levies	284 225	180 360
Amount paid - current year	(284 225)	(156 605)
Amount paid - previous years	(7 097)	-
	-	**7 097**

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 financial year.

Audit fees

	2010	2009
Opening balance	1 205 949	445 918
Current year audit fee	2 644 755	1 473 642
Amount paid - current year	(687 436)	(267 693)

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

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

Amount paid - previous years	(1 205 949)	(445 918)
	1 957 319	**1 205 949**

PAYE and UIF

Opening balance	1 427 904	1 427 904
Current year payroll deduction	3 903 688	322 313
Amount paid - current year	(3 903 688)	(322 313)
	1 427 904	**1 427 904**

Pension and medical aid deductions

Opening balance	2 776 500	2 776 500
Current year payroll deductions and Council contributions	7 715 926	6 447 967
Amount paid - current year	(7 715 926)	(6 447 967)
	2 776 500	**2 776 500**

VAT

VAT payable	9 351 487	11 848 471

VAT output payables and VAT input receivables are shown in note 17.

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

Councillors' arrear consumer accounts

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

30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
	R	R	R
Brink LR	2 834	-	2 834
Kulashe D	1 466	-	1 466
Le Roux S	725	-	725
Lenake MR	474	13	487
Liphahe M	578	-	578
Magoje TA	546	-	546
Mabeleng J	12 396	-	12 396
Mahalapa LL	474	704	1 178
Maphisa FD	227	-	227
Maselo KJ	650	-	650
Mashiya MN	4 058	-	4 058
Masisi DM	474	-	474
Mohorosi MM	838	-	838

Figures in Rand	2010	2009

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

Molutsi ME	2 341	-	2 341
Mpatane R	474	-	474
Mpesi M	525	-	525
Ntshabisenag TF	538	-	538
Nyamane MA	630	-	630
Ross DC	21 618	25 455	47 073
Sebokolodi MS	1 042	-	1 042
Stander MM	2 554	-	2 554
Thebehae MA	1 880	-	1 880
Zodala MR	949	-	949
	58 291	**26 172**	**84 463**

30 June 2009	Outstanding less than 90 days	Outstanding more than 90 days	Total
	R	R	R
Lenake MR	510	9 190	9 700
Mabaso MS	2 064	22 568	24 632
Mahalapa D	450	276	726
Maselo KJ	584	6 950	7 534
Mashiya MN	808	-	808
Masisi DM	996	24 485	25 481
Mogoje TA	2 248	-	2 248
Mohorosi MM	701	1 452	2 153
Molutsi ME	23	-	23
Ntshabiseng TF	12	-	12
Nyamane MA	1 020	5 317	6 337
Sebokolodi MS	1 119	14 040	15 159
Thebehae TL	510	3 205	3 715
Zodala MR	414	12 584	12 998
	11 459	**100 067**	**111 526**

Non-compliance sections of the MFMA

During the current financial year the following non-compliance to sections of the MFMA were identified:

Section 166(1): No audit committee was in place during the 2009/2010 financial year.

Section 165(1): The municipality did not have and internal audit unit in place.

Section 127(2)(3)(5): The annual report was not submitted withing seven months after year end to the municipal council.

Section 126 (1)(a): The annual financial statements were not prepared and submitted to the Auditor General within 2 months after year end..

Section 65(2)(b): The municipality did not maintain an information system which reliably recognised expenditure when it was incurred, accounted for creditors and accounted for payments made.

Section 65(2)(e): Not all suppliers were paid within 30 days.Section

Section 62(1)(d): The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and

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

wasteful expenditure.

Section 64(2)(g): No interest was charged on arrear consumer debtor accounts

Section 96 (b) of the Municipal Systems Act: A credit control and debt collection policy was not implemented.

51. Actual operating expenditure versus budgeted operating expenditure

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

52. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and processes for managing these risks.

The Council has overall responsibility for the establishment and oversight of the municipality’s risk management framework. Due to the Section 139 intervention at Nala Municipality during the 2009/2010 financial year risk management was managed and monitored by the Administrator. The Administrator had a direct reporting responsibility to Free State Provincial structures and the National Parliament.

The municipality monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include the following:

- credit risk;
- liquidity risk; and
- market risk (including interest rate risk).

The municipality seeks to minimise the effect of these risks on the operations of the municipality. The municipality policies provide written principles on interest rate risk, credit risk and in the investment of excess liquidity. Compliance with policies and exposure limits were reviewed by the Administrator. The municipality does not enter into or trade in financial instruments for speculative purposes.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

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Potential concentrations of credit rate risk consist mainly of investments, consumer receivables, other receivables and cash and cash equivalents.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. The municipality has entered into negotations with farmers and other stakeholders to pay the current portion of their service charges to improve the cashflow position of the municipality.

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

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

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Figures in Rand	2010	2009

52. Risk management (continued)

Financial assets

Investments	1 398 935	1 355 242
Other receivables	1 369 807	4 259 637
Cash and cash equivalents	4 068 225	6 687 247
Consumer receivables	20 003 669	7 721 085

These balances represent the maximum exposure to credit risk.

Liquidity risk

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

The Council has the ultimate responsibility for liquidity risk management. Due to the section 139 intervention the Administrator managed the liquidity risk of the municipality and had established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and monitoring commitments.

Liquidity risk is managed by reviewing if investments in non-core assets and services and whether this can be reduced. Furthermore there were negotiations with farmers to at least pay the current portions of of their accounts to ensure cash inflow.

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

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Borrowings	18 062 205	4 656 728	6 615 783	29 334 717
Trade and other payables	76 432 058	-	-	76 432 058
Gross finance lease obligations	817 986	367 660	-	1 185 646

At 30 June 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Borrowings	10 382 562	4 129 034	11 239 736	25 751 332
Trade and other payables	37 691 038	-	-	37 691 038
Gross finance lease obligations	460 739	817 986	367 660	1 646 385

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

The municipality is not exposed to market risks.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality's policy is to minimise interest rate cash flow risk exposures on

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

52. Risk management (continued)

long-term financing. Longer-term borrowings are therefore usually at fixed rates. The municipality's exposures to interest rates on financial assets and financial liabilities are detailed below.

The contracted interest rates on the DBSA and INCA loans are not linked to prime and therefore fluctuations in prime will not affect the municipality

Supplementary Information

Appendix B: Analysis of property, plant and equipment

Supplementary Information

Appendix C: Segmental Statement of Financial Performance

Supplementary Information

Appendix D: Schedule of External Loans

Supplementary Information

Appendix E: Disclosure of grants and subsidies in terms of the Municipal Finance Management Act