THABO MOFUTSANYANA DISTRICT MUNICIPALITY
Financial statements
for the year ended 30 June 2016
Auditor General of South Africa

General Information

Legal form of entity	District Municipality (DC 19)
Mayoral committee	
Executive Mayor	Mrs. M Vilakazi
	Mr. MM Radebe (Chief Whip)
	Mr. M Maduna (Speaker)
	Ms. M Motloung (MPAC Chair)
	Mr. G Bengell
	Mr. G Mokotso
	Mr. M Mamba
	Mr. P Mavundla
	Mrs. J Radebe
	Mr. CJ Makhoba (Resigned: 05/01/2016)
	Mr. S Motaung
	Ms. M Visagie
	Ms. TN Masiteng
Councillors	Ms. MR Naidoo
	Ms. Z Tshabalala
	Ms. N Taylor
	Mr. K Tsoene
	Ms. C Msibi
	Mr. R Ndlebe
	Mr. CHE Badenhorst
	Mr. I Vries
	Mr. S Nkopane
	Mr. L Kere
	Ms. V Mohala
	Mr. R Bath
	Ms. M Nakedi
	Ms. P Sibeko
	Mr. SE Tshabalala
	Ms. Y Jacobs
	Ms. E Mohoaladi
	Ms. O Tolofi
	Mr. T Thebe
	Mr. M Lebesa
	Ms. P Lebesana
	Mr. T Mosikidi
	Mr. PB Beukes
	Ms. MA Mokoena
	Ms. HE Mokoena
	Mr. TJ Tseki
	Mr. T Ramaele
	Mr. MA Nhlapo
	Ms. T Tigeli
Grading of local authority	Grade 11
Accounting Officer	Ms. TPM Lebenya
Chief Finance Officer (CFO)	Mr. HI Lebusa

General Information

Business address	1 Mampoi Street Old Parliament Building Witsieshoek 9870
Postal address	Private Bag X810 Witsieshoek 9870
Bankers	ABSA FNB
Auditors	Auditor General of South Africa
Attorneys	Balden, Vogel & Vennote Inc Sunil Narian Inc Rampai Attorneys

Index

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
SCM	Supply Chain Management
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
PT	Provincial Treasury
COGTA	Department of Cooperative Governance and Traditional Affairs (Free State)
IPSAS	International Public Sector Accounting Standards
PPPFA	Preferential Procurement Policy Framework Act
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Government Grant for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Government of the Republic has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The financial statements set out on pages 7 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2016

TPM Lebenya
Accounting Officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016. We submit this report in line with the provision of section 166(2) of the Municipal Finance Management Act for Council's consideration.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year five number of meetings were held.

Name of member	Number of meetings attended
Mr. GA Ntsala (Chairperson)	6
Mrs. SD Lebeko (Member)	3
Mr. TE Femele (Member)	3
Mr. MK Mojatau (Member)	6

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of financial statements

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

____

Chairperson of the Audit Committee

Date: ______________________

Report of the Auditor General

To the Provincial Legislature of THABO MOFUTSANYANA DISTRICT MUNICIPALITY

Report on the financial statements

I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages 10 to 70, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the Accounting Officer for the financial statements

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor General of South Africa

30 November 2016

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in rendering support to the local municipalities within the district and operates principally in South Africa.

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of (R5 141 131) and that the municipality's total liabilities exceed its assets by (R5 141 131).

The 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.

3. Subsequent events

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

4. Accounting policies

The financial statements are prepared in accordance with the South African Statements of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

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

Name
TPM Lebenya

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	4	316 188	1 093 943
VAT receivable	6	1 185 490	2 520 686
Cash and cash equivalents	7	737 869	6 516 364
		2 239 547	**10 130 993**
Non-Current Assets			
Property, plant and equipment	8	9 469 042	24 848 987
Intangible assets	9	2 943 673	2 938 975
		12 412 715	**27 787 962**
Total Assets		**14 652 262**	**37 918 955**
Liabilities			
Current Liabilities			
Finance lease obligation	10	1 168 376	1 064 326
Payables from exchange transactions	11	9 186 684	32 953 286
Unspent conditional grants and receipts	12	443 825	214 983
		10 798 885	**34 232 595**
Non-Current Liabilities			
Finance lease obligation	10	386 508	1 553 510
Employee benefit obligation	13	8 608 000	7 377 000
		8 994 508	**8 930 510**
Total Liabilities		**19 793 393**	**43 163 105**
Net Assets		**(5 141 131)**	**(5 244 150)**
Accumulated deficit		(5 141 131)	(5 244 150)

The accounting policies on pages 14 to 36 and the notes on pages 37 to 65 form an integral part of the financial statements.

* See Note 36

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Sundry income	16	234 006	1 572 901
Interest received - investments	15	1 172 745	2 069 979
Total revenue from exchange transactions		**1 406 751**	**3 642 880**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	14	102 798 196	108 834 495
Total revenue	39	**104 204 947**	**112 477 375**
Expenditure			
Employee related costs	21	(50 992 539)	(48 673 358)
Remuneration of councillors	21	(10 545 789)	(9 366 239)
Depreciation and amortisation	18	(3 550 284)	(2 982 168)
Debt impairment	17	(90 641)	(7 212)
Finance costs	19	(388 419)	(371 679)
Repairs and maintenance	22	(2 218 222)	(1 666 721)
Contracted services	37	(2 067 580)	(2 675 912)
Grants and subsidies paid	38	(1 610 414)	(5 365 551)
General Expenses	20	(47 687 206)	(52 620 873)
Total expenditure		**(119 151 094)**	**(123 729 713)**
Operating deficit		**(14 946 147)**	**(11 252 338)**
Gain on disposal of assets and liabilities		-	70 130
Deficit for the year		**(14 946 147)**	**(11 182 208)**

The accounting policies on pages 14 to 36 and the notes on pages 37 to 65 form an integral part of the financial statements.

* See Note 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated deficit	Total net assets
Opening balance as previously reported	9 390 066	9 390 066
Adjustments		
Correction of errors	(3 452 008)	(3 452 008)
Balance at 01 July 2014 as restated	**5 938 058**	**5 938 058**
Changes in net assets		
Surplus / (Deficit) for the year	(11 182 208)	(11 182 208)
Total changes	(11 182 208)	(11 182 208)
Restated* Balance at 01 July 2015	**9 805 016**	**9 805 016**
Changes in net assets		
Surplus / (Deficit) for the year	(14 946 147)	(14 946 147)
Total changes	(14 946 147)	(14 946 147)
Balance at 30 June 2016	**(5 141 131)**	**(5 141 131)**

Note(s)

The accounting policies on pages 14 to 36 and the notes on pages 37 to 65 form an integral part of the financial statements.

* See Note 36

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Grants		103 704 289	108 372 228
Interest income		1 172 745	2 069 979
Other receipts		212 853	56 740
		105 089 887	110 498 947
Payments			
Employee costs		(60 396 272)	(57 158 723)
Suppliers		(60 273 984)	(52 684 991)
Finance costs		(388 118)	(371 679)
Benefits paid relating to long service awards		(177 000)	(155 490)
		(121 235 374)	(110 370 883)
Net cash flows from operating activities	23	**(16 145 487)**	**128 064**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(2 732 704)	(19 445 990)
Proceeds from sale of property, plant and equipment	8	15 286 181	129 208
Purchase of other intangible assets	9	(735 120)	(2 333 500)
Net cash flows from investing activities		**11 818 357**	**(21 650 282)**
Cash flows from financing activities			
Finance lease payments		(1 451 371)	839 106
Net increase/(decrease) in cash and cash equivalents		**(5 778 501)**	**(20 683 112)**
Cash and cash equivalents at the beginning of the year		6 516 364	27 199 475
Cash and cash equivalents at the end of the year	7	**737 863**	**6 516 363**

The accounting policies on pages 14 to 36 and the notes on pages 37 to 65 form an integral part of the financial statements.

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sundry income	9 832 951	-	**9 832 951**	234 006	**(9 598 945)**	40.1
Interest received - investment	1 945 000	-	**1 945 000**	1 172 745	**(772 255)**	40.2
Total revenue from exchange transactions	**11 777 951**	**-**	**11 777 951**	**1 406 751**	**(10 371 200)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	104 349 400	-	**104 349 400**	102 798 196	**(1 551 204)**	
Total revenue	**116 127 351**	**-**	**116 127 351**	**104 204 947**	**(11 922 404)**	
Expenditure						
Personnel	(47 626 749)	-	**(47 626 749)**	(50 992 539)	**(3 365 790)**	
Remuneration of councillors	(9 624 866)	-	**(9 624 866)**	(10 545 789)	**(920 923)**	
Depreciation and amortisation	(3 116 587)	-	**(3 116 587)**	(3 550 284)	**(433 697)**	40.3
Impairment loss/ Reversal of impairments	-	-	**-**	(90 641)	**(90 641)**	40.4
Finance costs	(75 040)	-	**(75 040)**	(388 419)	**(313 379)**	40.5
Repairs and maintenance	(700 000)	-	**(700 000)**	(2 218 222)	**(1 518 222)**	40.6
Contracted Services	(750 000)	-	**(750 000)**	(2 067 580)	**(1 317 580)**	40.7
Grants and subsidies paid	(4 620 603)	-	**(4 620 603)**	(1 610 414)	**3 010 189**	40.8
General Expenses	(48 051 506)	-	**(48 051 506)**	(47 687 206)	**364 300**	
Total expenditure	**(114 565 351)**	**-**	**(114 565 351)**	**(119 151 094)**	**(4 585 743)**	
(Deficit) / Surplus	**1 562 000**	**-**	**1 562 000**	**(14 946 147)**	**(16 508 147)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 562 000**	**-**	**1 562 000**	**(14 946 147)**	**(16 508 147)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	1 960 600	-	**1 960 600**	316 188	**(1 644 412)**	40.9
VAT receivable	-	-	**-**	1 185 490	**1 185 490**	40.10
Cash and cash equivalents	2 591 555	-	**2 591 555**	737 869	**(1 853 686)**	40.11
	4 552 155	**-**	**4 552 155**	**2 239 547**	**(2 312 608)**	
Non-Current Assets						
Property, plant and equipment	15 490 595	-	**15 490 595**	9 469 042	**(6 021 553)**	40.12
Intangible assets	2 938 975	-	**2 938 975**	2 943 673	**4 698**	
	18 429 570	**-**	**18 429 570**	**12 412 715**	**(6 016 855)**	
Total Assets	**22 981 725**	**-**	**22 981 725**	**14 652 262**	**(8 329 463)**	
Liabilities						
Current Liabilities						
Finance lease obligation	1 064 326	-	**1 064 326**	1 168 376	**104 050**	
Payables from exchange transactions	22 599 431	-	**22 599 431**	9 186 684	**(13 412 747)**	40.13
Unspent conditional grants and receipts	-	-	**-**	443 825	**443 825**	40.14
	23 663 757	**-**	**23 663 757**	**10 798 885**	**(12 864 872)**	
Non-Current Liabilities						
Finance lease obligation	1 553 509	-	**1 553 509**	386 508	**(1 167 001)**	40.15
Employee benefit obligation	1 968 000	-	**1 968 000**	8 608 000	**6 640 000**	40.16
	3 521 509	**-**	**3 521 509**	**8 994 508**	**5 472 999**	
Total Liabilities	**27 185 266**	**-**	**27 185 266**	**19 793 393**	**(7 391 873)**	
Net Assets	**(4 203 541)**	**-**	**(4 203 541)**	**(5 141 131)**	**(937 590)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated deficit	(4 203 541)	-	**(4 203 541)**	(5 141 131)	**(937 590)**	

The accounting policies on pages 14 to 36 and the notes on pages 37 to 65 orm an integral part of the financial statements.

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and the amounts have been rounded off to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgements include:

Receivables

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Property, plant and equipment

As described in accounting policies 1.3 and 1.4, the municipality depreciates / amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation.

Management considered the impact of technology, availability of capital funding, service requirement and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgemental as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provision for long service awards

The present value of the provision for long service awards depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of the provision for long service awards.

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

Other key assumptions for the provision for long service awards are based on current market conditions. Additional information is disclosed in note 13.

Impairment of receivables

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

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

Property, plant and equipment is initially measured at cost.

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 through a non-exchange transaction, its cost is its fair value as at the 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.

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

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

1.3 Property, plant and equipment (continued)

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.

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

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

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

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	5 - 12 years
Motor vehicles	Straight line	5 - 11 years
IT equipment	Straight line	3 - 8 years

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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.

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

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

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

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

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:
- is separable, i.e. 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, identifiable asset or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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.

1.4 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Computer software, other	3 - 6 years

Intangible assets are derecognised:

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

1.5 Investments

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

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

1.6 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

1.6 Financial instruments (continued)

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Finance lease obligation	Financial liability measured at amortised cost
Operating lease liability	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Accounting Policies

1.6 Financial instruments (continued)

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

1.6 Financial instruments (continued)

- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognises the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or an expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or an expense in surplus or deficit.

1.6 Financial instruments (continued)

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Receivables from exchange transactions

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

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

Payables from exchange transactions

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, 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.

Bank overdraft and borrowings

Bank overdraft 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.

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;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.7 Leases

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

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.7 Leases (continued)

Finance leases - lessee

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

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

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

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

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using the standard of GRAP on leases.

Operating leases - lessee

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

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

1.8 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.

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

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

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

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

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

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

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

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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 tests 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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the 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.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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.

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.

1.9 Impairment of non-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.

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related services.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Provision for long service awards

For the provision for long service awards the cost of providing the benefits is determined using the projected credit method.

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

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

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long term incentives are accounted for through the statement of financial performance.

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

Post retirement obligations - medical aid

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover the liabilities.

1.11 Provisions and contingencies

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

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

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

1.11 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

Accounting Policies

1.11 Provisions and contingencies (continued)

- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.12 Revenue from exchange transactions (continued)

Interest received

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.13 Revenue from non-exchange transactions

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

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

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

Recognition

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

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

1.13 Revenue from non-exchange transactions (continued)

Measurement

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

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

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

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.

1.14 Investment income

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

1.15 Comparative figures

When the presentation or classification of an item in the annual financial statements are amended, comparative amounts are reclassified.

1.16 Unauthorised expenditure

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

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

1.17 Fruitless and wasteful expenditure

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

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

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

1.18 Irregular expenditure (continued)

(a) this Act; or
(b) which has not been condoned in terms of section 170;
(c) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of Municipality Systems Act, and which has not been condoned in terms of the Act;
(d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No.20 of 1998); or
(e) expenditure incurred by a municipality or municipal entity in contravention of , or that is not in accordance with a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-laws but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.19 Use of estimates

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

Estimates in the financial statements include but are not limited to the following:
- Depreciation
- Bad debts,
- Long service awards

1.20 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board. Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.21 Offsetting

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

Accounting Policies

1.22 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives. Deviations between budget and actual amounts are regarded as material differences when more 10% deviation exists. Refer to Note 40 for all material differences explaination.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30. The financial statements are prepared on the accrual basis of accounting, and the budget is prepared on the accrual basis. A comparison with the budgeted amounts for the reporting period has been included in the Statement of comparison of budget and actual amounts.

The annual budget figures have been prepared in accordance with the GRAP standard. The amounts are scheduled as a separate additional financial statement, called the Statement of comparison of budget and actual amounts.

Explanatory comment is provided in the notes to the annual financial statements giving reasons for significant individual variances between budgeted and actual amounts. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. The budget is approved on accrual basis.

The Statement of comparison of budget and actual amounts has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned 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 national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

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

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

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

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.25 Conditional grants and receipts

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

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

Recognition

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

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

Measurement

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

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

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

1.26 Commitments

The term ‘commitments’ is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the entity of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made. The notes to the financial statements must disclose the nature and amount of each material individual and each material class of capital expenditure commitment as well as non-cancellable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

Notes to the Financial Statements

Figures in Rand	2016	2015

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and

Notes to the Financial Statements

2. New standards and interpretations (continued)

- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

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

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

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

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

Notes to the Financial Statements

2. New standards and interpretations (continued)

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. “Generally accepted accounting practice” has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018. The municipality expects to adopt the standard for the first time in the 2019 financial statements.

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

3. Financial assets by category

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

2016	Financial assets at amortised cost	Total
Receivables from exchange transactions	316 188	316 188
Receivables from non-exchange transactions	709 066	709 066
Cash and cash equivalents	737 869	737 869
VAT Receivables	1 185 490	1 185 490
	2 948 613	**2 948 613**

2015	Financial assets at amortised cost	Total
Receivables from exchange transaction	1 093 943	1 093 943
Receivables from non-exchange transaction	709 066	709 066
Cash and cash equivalents	6 516 365	6 516 365
VAT Receivables	2 520 686	2 520 686
	10 840 060	**10 840 060**

4. Receivables from exchange transactions

Sundry debtors	401 830	1 088 944
Suspense account - unidentified payment	304 143	304 143
Underpayment of PAYE	22 292	22 292
Seconded councillor's salaries over payment	1 784 288	1 784 288
Councillors over payments	364 922	364 922
Impairment provision	(2 561 287)	(2 470 646)
	316 188	**1 093 943**

4. Receivables from exchange transactions (continued)

Suspense account - unidentified payment

Payment relates to a transaction against the bank account and cashbook on 14 May 2009. No supporting documentation can be traced to identify the nature and the depositors of this batch payment processed.

Credit quality of trade and other receivables

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

Receivables from exchange transactions impaired

As of 30 June 2016, R 2,561,287 (2015: R 2,470,646) sundry receivables from exchange transaction were impaired and provided for.

The ageing of these receivables is as follows:

3 to 6 months	-	559 545
Over 6 months	2 877 475	3 005 044
	2 877 475	**3 564 589**

Reconciliation of impairment of receivables from exchange transactions

Opening balance	2 470 646	2 470 646
Provision for impairment	90 641	-
	2 561 287	**2 470 646**

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

5. Receivables from non-exchange transactions

Receivables from non-exchange transaction

At 30 June 2015, other receivables from non-exchange transactions - RSC levies with a carrying amount of R 49,079,862 were written off as irrecoverable debt.

The amount written off as irrecoverable was R 0 as of 30 June 2016 (2015: R 47,570,913)

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	-	49 079 862
Amounts written off as uncollectible	-	(47 570 913)
Unused amounts reversed	-	(1 508 949)
	-	**-**

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

6. VAT receivable

VAT	1 185 490	2 520 686

The municipality accounts for VAT on the payment basis.

Figures in Rand	2016	2015

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Bank balances	35 223	769 756
Short-term deposits	702 646	5 746 608
	737 869	**6 516 364**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA BANK - Account Type - 770-150-841	35 223	769 756	2 591 555	35 223	769 756	2 591 555
ABSA BANK - Account Type - 206-206-4985	78 445	198 531	327 646	78 445	198 531	327 646
FNB BANK - Account Type - 712-733-40226	563 188	3 816 442	3 604 912	563 188	3 816 442	3 604 912
ABSA BANK - Account Type - 207-253-7209	61 013	1 731 635	20 000 000	61 013	1 731 635	20 000 000
ABSA BANK - Account Type - 921-300-0832	-	-	675 362	-	-	675 362
Total	**737 869**	**6 516 364**	**27 199 475**	**737 869**	**6 516 364**	**27 199 475**

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	4 080 980	(2 088 668)	1 992 312	4 084 070	(1 707 124)	2 376 946
Motor vehicles	2 692 400	(1 368 983)	1 323 417	2 692 400	(904 555)	1 787 845
IT equipment	7 611 218	(3 694 738)	3 916 480	7 386 338	(2 468 137)	4 918 201
Infrastructure - Work in progress	-	-	-	12 839 128	-	12 839 128
Leased assets	3 453 048	(1 216 215)	2 236 833	3 453 048	(526 181)	2 926 867
Total	**17 837 646**	**(8 368 604)**	**9 469 042**	**30 454 984**	**(5 605 997)**	**24 848 987**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Donation	Disposals	Depreciation	Total
Furniture and fixtures	2 376 946	28 273	-	-	(412 907)	1 992 312
Motor vehicles	1 787 845	-	-	-	(464 428)	1 323 417
IT equipment	4 918 201	257 378	-	(6 604)	(1 252 495)	3 916 480
Infrastructure - Work in progress	12 839 128	2 447 053	(15 286 181)	-	-	-
Leased assets	2 926 867	-	-	-	(690 034)	2 236 833
	24 848 987	**2 732 704**	**(15 286 181)**	**(6 604)**	**(2 819 864)**	**9 469 042**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	2 114 139	732 001	-	(469 194)	2 376 946
Motor vehicles	1 960 856	373 244	(47 680)	(498 575)	1 787 845
IT equipment	2 437 377	3 629 013	(11 398)	(1 136 791)	4 918 201
Infrastructure - Work in progress	-	12 839 128	-	-	12 839 128
Leased assets	1 554 103	1 872 604	-	(499 840)	2 926 867
	8 066 475	**19 445 990**	**(59 078)**	**(2 604 400)**	**24 848 987**

Office equipment with a carrying value of R 2,236,833 (2015: R 2,926,867) is leased under a finance lease.

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4 828 884	(1 885 211)	2 943 673	4 093 764	(1 154 789)	2 938 975

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 938 975	735 120	(730 422)	2 943 673

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	983 231	2 333 500	(377 756)	2 938 975

10. Finance lease obligation

	2016	2015
Minimum lease payments due		
- within one year	1 350 175	1 448 725
- in second to fifth year inclusive	414 667	1 760 301
	1 764 842	3 209 026
less: future finance charges	(209 957)	(591 191)
Present value of minimum lease payments	**1 554 885**	**2 617 835**
Present value of minimum lease payments due		
- within one year	1 168 376	1 064 327
- in second to fifth year inclusive	386 508	1 553 508
	1 554 884	**2 617 835**
Non-current liabilities	386 508	1 553 510
Current liabilities	1 168 376	1 064 326
	1 554 884	**2 617 836**

Notes to the Financial Statements

Figures in Rand	2016	2015

10. Finance lease obligation (continued)

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

The average lease term is 3 years and the average effective borrowing rate was 9% to 23% (2015: 9% to 30%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

11. Payables from exchange transactions

	2016	2015
Trade payables	3 457 841	10 112 335
Medical aid - PJ Du Plessis	-	8 550
Accrued leave pay	3 504 067	3 209 554
Accrued bonus	1 086 733	833 356
Other payables	826 153	824 695
Councillors pension funds	4 020	4 020
UIF over deducted from employees	193 496	191 563
Councillors salaries under payments	6 637	5 535
Legal fees - RSC Levies	-	15 049 155
Compensation commissioner	-	1 849 282
Metropolitan	251	251
Fleet management payables	107 486	864 990
	9 186 684	**32 953 286**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Rural Roads Assets Management System Grant	443 825	214 983

	2016	2015
Movement during the year		
Balance at the beginning of the year	214 983	-
Additions during the year	6 264 039	21 377 256
Income recognition during the year	(5 820 213)	(21 162 273)
Deducted from equitable share grant	(214 984)	-
	443 825	**214 983**

The nature and extent of government grants and their conditions, restrictions and other contingencies attached to these government grants have to be fulfilled and hence recognised in the financial statements as unspent conditional grants

See note 14 for reconciliation of grants from National/Provincial Government.

13. Provision for long service awards

Long service awards

Valuation method

The Projected Unit Credit Method is used to determine the present value of the defined benefit obligation.

Defined benefit obligation

The defined benefit liability as disclosed below are represented by two different post-employment benefits. None of the benefits set out below are externally funded.

13. Provision for long service awards (continued)

Post-retirement medical aid plan Active members receive a fixed subsidy of 70% of medical aid contributions during the current working year, up to a specified maximum employer contribution. The spouse or adult dependant of an active member is entitled to a 70% subsidy of their contributions. This proportion of the subsidy will continue to be paid in the event of the principal member's death.

Continuation members receive a fixed subsidy of 70% of medical aid contributions during the current working year, up to a specified maximum employer contribution. The spouse or adult dependant of a continuation member is entitled to a 70% subsidy of their contributions.

Long service award

Long service awards are payable to qualifying in-service employees. The leave benefits are in accordance with paragraph 11 of the South African Local Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGBC.

The amount recognised in the statement of financial position are as follows for 2016:

	Long-service leave benefits	Post-retirement health care benefits	Total
Balance as at 30 June 2015	(2 206 000)	(5 171 000)	(7 377 000)
Current service	(375 000)	(136 000)	(511 000)
Interest cost	(212 000)	(484 000)	(696 000)
Actuarial (loss) - change in financial assumption	(40 000)	(1 000)	(41 000)
Actuarial (loss) - change in demographic assumptions	(82 000)	-	(82 000)
Actuarial (loss) - experience variance	(29 000)	(49 000)	(78 000)
Benefits payments	76 000	101 000	177 000
	(2 868 000)	**(5 740 000)**	**(8 608 000)**

The amount recognised in the statement of financial position are as follows for 2015:

	Long-service leave benefits	Post-retirement health care benefits	Total
Balance as at 30 June 2014	(1 968 000)	(4 591 000)	(6 559 000)
Current service	(340 000)	(121 000)	(461 000)
Interest cost	(153 000)	(443 000)	(596 000)
Actuarial (loss) - change in financial assumption	7 000	(83 000)	(76 000)
Actuarial (loss) - experience variance	96 000	(5 000)	91 000
Benefits payments	152 000	72 000	224 000
	(2 206 000)	**(5 171 000)**	**(7 377 000)**

Discount rate

The currency and term of the government bonds shall be consistent with the currency and estimated term of the defined benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 7 years, the expected duration of the liability based on the current membership data, as at 30 June 2016.

Key assumptions used

The economic assumptions for the 30 June 2016 valuation are shown in the table below, and compared to those used for the previous valuation.

	30 June 2015	30 June 2016
Gross discount rate - Long service award	Nominal yield curve	8,80%

Figures in Rand	2016	2015

13. Provision for long service awards (continued)

Gross discount rate - Medical aid	9,30%	9,70%
Consumer price inflation	Difference between the nominal and real yield curves	6,50%
Healthcare cost inflation	8,90%	9,30%
Salary inflation	Equal to CPI + 1% + merit scale	8,50%
Net discount rate - Long service award	Yield curve based	0,28%
Net discount rate - Medical aid	0,37%	0,37%

Membership Data

Key features of the membership data used in the valuation of post-retirement healthcare subsidy are summarised below:

Current employees	**2016**	**2015**
- Number of current employees		
Males	5	6
Females	1	1
- Average age of employees		
Males	56,6	57,1
Females	49,6	48,6
- Average years of past service		
Male	24,3	23,5
Female	27,7	26,7
- Average total monthly premium of Principal members (R)		
Male	R 3,248	R 2,937
Female	R 2,756	R 2,487
- Average total monthly premium of Adult dependants (R)		
Male	R 2,208	R 2,001
Female	R 1,482	R 1,337

Continuation members		
- Number of continuation members		
Male	1	0
Female	2	2
-Average age of continuation members		
Male	65,7	n/a
Female	69,2	68,2
- Actual percentage married		
Male	100%	n/a
Female	0%	0%
- Average total monthly premium of Principal members (R)		
Male	R 2,695	n/a
Female	R 4,902	R 4,459
- Average total monthly premium of Adult dependants (R)		
Male	R 1,865	n/a
Female	R 3,373	R 3,068

Breakdown of Defined Benefit Obligation

The table below provides a breakdown of the defined benefit obligation between active and continuation members as at the current and previous valuation dates:

Breakdown of defined benefit obligation (R'000)	**30 June 2014**	**30 June 2015**	**30 June 2016**
Active members	(3 404)	(3 929)	(3 675)
Continuation members	(1 187)	(1 242)	(2 065)
	(4 591)	**(5 171)**	**(5 740)**

13. Provision for long service awards (continued)

Post-retirement healthcare subsidy sensitivities

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inlfation. The table below sets out the sensitivity of the valuation result to a 1% increase and 1% decrease in the assumed healthcare cost of inflation assumption.

This is regarded as important management information. The GRAP 25 accounting standard also requires this sensitivity to be disclosed in the annual financial statement.

Healthcare cost inflation sensitivity (R'000)	**1% decrease**	**Base (9,30%)**	**1% increase**
Defined benefit obligation	(4 923)	(5 740)	(6 744)
Service cost (next financial year)	(124)	(149)	(181)
Interest cost (next financial year)	(478)	(558)	(658)
	(5 525)	**(6 447)**	**(7 583)**

Assumptions used

The economic assumptions for the 30 June 2016 valuation are shown in the table below, and compared to those used for the respective roll-back valuations.

Summary of economic assumptions (rates are per annum)	**30 June 2014**	**30 June 2015**	**30 June 2016**
Gross discount rate	9,60%	9,30%	9,70%
Healthcare cost inflation	9,10%	8,90%	9,30%
Net discount rate	0,46%	0,37%	0,37%

Healthcare cost inflation

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index (“CPI”) by a margin of 1% to 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BESA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption.

The CPI inflation assumption using this methodology is 7.30% as at 30 June 2016. Thus, the healthcare cost inflation has been set as 9.30% at the valuation date, after allowing for a margin of 2% over CPI inflation.

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

Net discount rate

The relationship between the gross discount rate and healthcare cost inflation rate is more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future medical benefits are projected in line with the healthcare cost inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the healthcare cost inflation rate respectively. Using the gross discount and healthcare cost inflation rates as shown above, the resulting net discount rate is 0.37% (calculated as (1 + discount rate)/(1 + healthcare cost inflation rate) – 1) for the 30 June 2016 valuation.

The net discount rates as at 30 June 2015 and 2014 are determined in the same manner as described above.

13. Provision for long service awards (continued)

Demographic assumptions

This section contains the demographic assumptions used in the valuation. The mortality tables used have not been presented, as they are standard tables, which are widely used. The demographic assumptions are the same for the roll-back valuations as at 30 June 2015 and 2014.

The demographic assumptions for the 30 June 2016 valuation and corresponding roll-back valuations are shown in the tables below.

Summary of key demographic assumptions	**30 June 2014, 2015 & 2016**
Pre-retirement mortality	SA85-90 L rated down 1 year for males and females
Post-retirement mortality	PA(90) rated down 1 year for males and females plus 1% future mortality improvement from 2010
Withdrawal	See rationale for demographic assumption below
Expected retirement age	63 years for males and females
Percentage married for in-service members	See rationale for demographic assumption below
Spouse and principal member age difference	Male 3 years older than female
Employees’ continuation percentage at retirement	90.00%
Percentage of widows continuing membership	90.00%

Rationale for demographic assumptions

For many of the demographic assumptions, particularly mortality rates, the small size of the membership precludes the use of assumptions based on past experience of the particular scheme. Thus, assumptions are set which are consistent with market practice and with investigations performed where there is a significant amount of data.

Figures in Rand	2016	2015

13. Provision for long service awards (continued)

Pre-retirementmortality

The pre-retirement mortality table most commonly used in the retirement industry (for similar sub-populations in South Africa) is SA 85-90 (Light). However, given apparent improvements in mortality with active members living longer, we have rated the SA 85-90 (Light) table down by one year for both males and females. This means that the mortality rate assumed for an individual in the valuation is the rate provided in the table for an individual at age one year younger.

Post-retirementmortality

PA (90) is commonly used in the retirement industry. However, given the fact that pensioners are living longer than at the time the table was compiled, we have rated the PA (90) table down by one year for both males and females. This means that the mortality rate assumed for an individual in the valuation is the rate provided in the table for an individual one year younger.

There is a strong argument for inclusion of mortality improvements in the assumption (1.00% to 1.50% p.a. at all ages would be reasonable), given the improvements that have occurred at the post-retirement ages in most developed countries over the past forty years, as well as the evidence of improvements observed by larger actuarial service providers in South Africa. We therefore included a 1% per annum mortality improvement factor from 2010 onwards.

Withdrawal assumption

In the absence of credible past withdrawal data of this particular scheme, the withdrawal assumptions have been set in line with those generally observed in the South African market.

The table below shows the annual withdrawal rates for the valuation, differentiated by age.

Withdrawal assumption age	**Males**	**Females**
20	13,30%	13,30%
25	13,30%	13,30%
30	10,90%	10,90%
35	8,20%	8,20%
40	5,80%	5,80%
45	4,10%	4,10%
50	2,90%	2,90%
55	0,00%	0,00%
60+	0,00%	0,00%

Notes to the Financial Statements

Figures in Rand	2016	2015

13. Provision for long service awards (continued)

Assumed retirement age

The assumed retirement age of 63 years for current employees is based on the normal retirement age of the employer of 65 years for all employees, including allowance for early retirements. This assumption is in respect of both males and females.

Spouse and principalmember age difference

We have assumed that males are 3 years older than females for active and continuation members.

Typically, the actual age of continuation members' spouses would be used in valuations, although this detail could not be provided by the employer, and thus the above assumption was applied.

Child dependants

No value has been placed on benefits payable to child dependants. The impact is likely to be immaterial and not allowing for child dependants is generally applied by other actuaries in the market place

Percentagemarried assumption

We have assumed that 90% of all active members (both male and female), will be married at retirement, whereas actual marital status was used for continuation members.

14. Government grants and subsidies

Operating grants		
Equitable share	96 977 983	86 946 000
Financial Management Grant	1 250 000	1 250 000
Department of Public Works Programme	1 208 000	1 282 000
Rural Roads Assets Management System Grant	1 781 174	1 670 017
LG Seta skills development grant	92 964	84 872
Service SETA Grant	333 900	4 041 450
Municipal System Improvement Grant	930 000	934 000
COGTA - Legal Support	-	12 626 156
TETA Grant	224 175	-
	102 798 196	**108 834 495**

Equitable Share

Current-year receipts	96 978 000	86 946 000
Transfer to revenue	(96 763 000)	(86 946 000)
Unspent conditional grant withheld (RAMS)	(215 000)	-
	-	**-**

Rural Roads Assets Management System Grant

Balance unspent at beginning of year	214 983	-
Current-year receipts	2 225 000	1 885 000
Conditions met - transferred to revenue	(1 781 175)	(1 670 017)
Transferred from Equitable Share	(214 983)	-
	443 825	**214 983**

Notes to the Financial Statements

Figures in Rand	2016	2015

14. Government grants and subsidies (continued)

Department of Public Works Programme

Current-year receipts	1 208 000	1 282 000
Conditions met - transferred to revenue	(1 208 000)	(1 282 000)
	-	-

Finance Management Grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

Municipal System Improvement Grant (MSIG)

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

TETA Grant

Current-year receipts	224 175	-
Conditions met - transferred to revenue	(224 175)	-
	-	-

LG Seta - skills development grant

Current-year receipts	92 964	84 872
Conditions met - transferred to revenue	(92 964)	(84 872)
	-	-

COGTA - Legal Support

Current-year receipts	-	12 626 156
Conditions met - transferred to revenue	-	(12 626 156)
	-	-

Service SETA Grant

Current-year receipts	333 900	4 041 450
Conditions met - transferred to revenue	(333 900)	(4 041 450)
	-	-

15. Interest received - investments

Interest revenue		
Bank	1 172 745	2 069 979

The amount included in Investment revenue arising from exchange transactions amounted to R 1,172,745.

Notes to the Financial Statements

Figures in Rand	2016	2015

16. Sundry income

Tender documents	21 500	56 740
Other income / Unallocated deposits recognised in the current year	212 506	1 516 161
	234 006	**1 572 901**

17. Debt impairment

Impairments		
Contribution to doubtful debt allowance	90 641	7 212

18. Depreciation and amortisation

Property, plant and equipment	2 819 863	2 604 401
Intangible assets	730 421	377 767
	3 550 284	**2 982 168**

19. Finance costs

Finance leases	388 419	371 679

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 388,118 (2015: R 371,679).

20. General expenses

Advertising	1 068 340	903 054
Auditors remuneration	2 244 353	2 699 709
Bank charges	274 231	71 501
Cleaning and consumables	66 200	88 673
Catering	1 534 152	1 109 843
ICT and programming	2 964 512	1 284 807
Disaster intervention	123 697	1 739 531
Entertainment	88 842	108 152
Donation	226 870	176 635
Insurance	144 465	282 341
Events management	1 709 483	1 382 176
Municipal services	-	49 962
Motor vehicle expenses	984 222	986 473
SCM Electronic system	145 440	255 544
EPWP incentive grant - salaries expenditure	4 871 052	3 943 691
Placement fees	21 926	21 696
Poverty alleviation expense - food security expense	1 107 703	1 220 632
Printing and stationery	697 716	508 156
Uniform and protective clothing	369 549	176 352
Transport	1 463 840	773 451
Employee wellness programme	-	893 650
Subscriptions and membership fees	534 450	65 860
Telephone and fax	1 017 700	823 323
Training	715 158	1 112 679
Travel and subsistence	3 221 249	3 820 702
Legal fees	1 682 953	20 178 260
Service SETA Learnership	542 175	3 807 000
Minor expenditure incurred	-	268 614
MFMA programme - accounting support expenditure	936 315	503 098
District audit committee	265 176	163 877
Sampling of food and water	387 605	316 725

Notes to the Financial Statements

Figures in Rand	2016	2015

20. General expenses (continued)

Bursary fund	1 389 705	1 435 095
Sports development programme	208 998	190 468
Lease rentals on operating lease	1 392 948	1 259 143
Donation of asset	15 286 181	-
	47 687 206	**52 620 873**

General expenses line items were re-classified in line with the nature of the expenses for the current year and prior year.

21. Remuneration related cost

Basic	36 540 870	34 461 969
Bonus	2 036 656	1 785 442
Medical aid - company contributions	2 637 969	3 277 353
UIF	192 494	175 516
SDL	473 113	457 074
Other payroll levies	724 551	966 323
Leave pay provision charge	294 513	495 433
Overtime payments	486 038	262 786
Long-service awards	1 231 000	818 000
Car allowance	4 909 943	4 405 210
Housing benefits and allowances	201 244	151 606
Cellphone allowance	376 000	358 796
Leave redemption	888 148	1 057 850
	50 992 539	**48 673 358**

Remuneration of Accounting Officer - Ms. TPM Lebenya

Annual Remuneration	1 019 092	767 119
Car allowance	228 000	212 667
Contributions to UIF, Medical and Pension Funds	67 417	58 092
Travel, motor car, accommodation, subsistence and other allowance	154 603	421 293
Cellphone allowance	18 000	15 600
	1 487 112	**1 474 771**

Ms. TPM Lebenya was appointed as the Accounting Officer and commenced her term of office from 2 March 2015.

Remuneration of Accounting Officer - Mr. B Molotsi

Annual Remuneration	-	236 231
Car allowance	-	60 000
Housing allowance	-	24 000
Contributions to UIF, Medical and Pension Funds	-	9 542
Travel, motor car, accommodation, subsistence and other allowance	-	198 510
Cellphone allowance	-	6 000
	-	**534 283**

Mr. B Molotsi was appointed as the accounting officer on 1 November 2012 and resigned on the 03 November 2014.

Notes to the Financial Statements

Figures in Rand	2016	2015

21. Remuneration related cost (continued)

Remuneration of Chief Financial Officer - Mr. HI Lebusa

Annual Remuneration	886 037	798 685
Car allowance	180 000	180 000
Performance Bonuses	111 945	91 321
Contributions to UIF, Medical and Pension Funds	22 885	22 843
Travel, motor car, accommodation, subsistence and other allowance	119 368	205 836
Cellphone	14 400	14 400
	1 334 635	**1 313 085**

Remuneration of Executive Manager Corporate Service - Mr. SK Khote

Annual Remuneration	837 395	718 050
Car allowance	205 000	205 000
Contributions to UIF, Medical and Pension Funds	11 943	11 665
Travel, motor car, accommodation, subsistence and other allowance	53 439	213 065
Cellphone	14 400	14 400
	1 122 177	**1 162 180**

Mr. SK Khote - executive manager corporate service, was appointed as the acting municipal manager from 1 November 2014 to the 1 March 2015

Remuneration of Acting Director: Community Services - Ms. EN Mtimkulu

Annual Remuneration	-	528 420
Car allowance	-	129 666
Contributions to UIF, Medical and Pension Funds	-	145 119
Travel, motor car, accommodation, subsistence and other allowance	-	300 838
Cellphone	-	12 000
	-	**1 116 043**

Ms. EN Mtimkulu - manager rural and agriculture development, was appointed as the acting Director: Community Services from 1 April 2015 to the 29 May 2015.

Remuneration of Acting Director: Community Services - Mrs. P Selepe

Mrs. P Selepe - Director Community Services from Maluti-A-Phofung Local Municipality, was seconded to act as a Director: Community Services of Thabo Mofutsanyana District Municipality from 1 June 2015 to the 30 June 2016. The remuneneration was paid by Maluti-A-Phofung Local Municipality.

Remuneration of councillors

Executive Mayor - Ms. M Vilakazi	1 013 079	871 854
Chief Whip - Mr. MM Radebe	634 857	624 446
Speaker - Mr. MS Maduna	404 983	384 905
Chairperson MPAC - Ms. M Motloung	350 185	398 303
Mayoral Committee Members	4 775 024	4 816 270
Councillors	3 370 661	2 270 461
	10 548 789	**9 366 239**

In-kind benefits

Figures in Rand	2016	2015

21. Remuneration related cost (continued)

The Executive Mayor, Speaker, Chief whip, MPAC Chairperson and Mayoral Committee Members are full-time. The Executive Mayor, Speaker, Chief whip, MPAC Chairperson is provided with an office and secretarial support at the cost of the Council. The Mayoral Committee Members are provided with pool secretarial support and offices at the cost of council.

The Executive Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

The Executive Mayor and Speaker has full-time driver / bodyguard.

22. Repairs and maintenance

Maintenance buildings	413 465	240 236
Maintenance general	1 228 854	1 023 062
Maintenance rental equipment	575 903	431 511
	2 218 222	**1 694 809**

23. Cash (used in) generated from operation

Deficit	(14 946 147)	(11 182 208)
Adjustments for:		
Depreciation and amortisation	3 550 284	2 982 168
Gain (loss) on sale of assets and liabilities	6 604	(70 130)
Finance costs - Finance leases	388 419	371 679
Impairment deficit	90 641	7 212
Movements in provision for long service awards	1 231 000	818 000
Changes in working capital:		
Receivables from exchange transactions	687 114	(566 756)
Other receivables from non-exchange transactions	-	7 212
Payables from exchange transactions	(8 717 440)	5 059 807
VAT	1 335 196	2 486 097
Unspent conditional grants and receipts	228 842	214 983
	(16 145 487)	**128 064**

24. Financial liability by category

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

2016	Financial liabilities at amortised cost	Total
Finance lease - Non-current	386 508	386 508
Finance lease - current	1 168 376	1 168 376
Payables from exchange transactions	4 595 883	4 595 883
	6 150 767	**6 150 767**

2015	Financial liabilities at amortised cost	Total
Finance lease - Non-current	1 064 326	1 064 326
Finance lease - current	1 553 510	1 553 510
Payables from exchange transactions	28 910 375	28 910 375
	31 528 211	**31 528 211**

Figures in Rand	2016	2015

25. Commitments

Commitments in respect of operating expenditure

Contracted for and authorised by accounting officer	2016	2015
• Development of rural road asset management system (RRAM for TMDM)	2 278 089	4 502 910
• Supply and delivery of SMME's Equipment	608 390	-
• Research, compile, design and printing of accomodation guide brouchures	99 500	-
• Internet Service Provider (ISP)	850 750	1 653 300
• Disaster Communication System	1 612 089	2 833 570
• Upgrading of brick block paving phase 2 (Rietz)	-	126 728
• Upgrading of brick block paving (Lindley)	-	2 866 698
• Upgrading of brick block paving (Ladybrand)	-	480 698
• Disaster recovery plan and hosting	2 599 000	3 729 000
• PricewaterhouseCoopers	326 164	-
	8 373 982	**16 192 904**

Total operational commitments	2016	2015
Contracted for and authorised by accounting officer	8 373 982	16 925 088

This committed expenditure relates to various projects and will be financed by available bank facilities.

Operating leases - as lessee (expense)

Minimum lease payments due	2016	2015
- within one year	434 363	527 139
- in second to fifth year inclusive	94 027	466 055
	528 390	**993 194**

Operating lease payments represent rentals payable by the municipality for both the Mayoral and Speaker's vehicles leased from Department of Roads and Transport.

Leases are negotiated for a period of three years. The daily and kilometre tariff is reviewed annually. The tariff charged to the Municipality will at all times be on standard tariff scales applicable to other government departments. Currently average monthly rentals repayments are R 30,000 including VAT.

26. Contingencies

Podbielski Mhlambi Attorneys vs Thabo Mofutsanyana:

Podbielski Mhlambi was appointed to take over from Thakangoaha Investments, after the termination of their contract to collection of the outstanding RSC levies, refer "Thakangoaha Investments vs Municipality" above for further details. The firm understands that there are 6000 outstanding defended cases before various magistrates' courts regarding the RSC levies. The firm does not have sight of these files as Podbielski Mhlambi Attorneys has placed a lien on the files until the client pays their claim of R 36 million for fees and disbursements.

The outstanding legal fees of R 15 049 155 has been raised as a liability and Advocate Ploos van Amstel is owed an amount of approximately R200 000 which constitute historical billings to Podbielski attorneys. The municipality estimates that approximately R 3 000 000 in legal fees to its attorneys Rampai Attorneys will be incurred in defending this action as Podbielski Mhlambi Attorneys have issued a letter of demand for the recovery of its fees.

Housing guarantees

A contingent liability exists for the municipality to pay the guarantee amount in the event of the employee not being able to settle their bond / default on payment.

The Municipality has provided housing guarantee's to the employees listed below. The maximum amount each qualifying employee may receive is R85 000.

Notes to the Financial Statements

Figures in Rand	2016	2015

26. Contingencies (continued)

Name of employee	Effective date	2016	2015
Mazibuko Mwelase	25/05/2005	17 000	17 000
Mollo Ngobese	22/03/2006	17 000	17 000
Moloi Khesa	25/05/2005	17 000	17 000
Moloi Materonko	08/10/2002	13 000	13 000
Motloung Sylvia	30/01/2007	17 000	17 000
Mthombeni Sthembiso	01/10/2004	14 000	14 000
Mani Koahela	01/07/2009	17 000	17 000
		112 000	**112 000**

27. Related parties

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

Related parties include:

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

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

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

The only related party transactions for the current financial year were with key management personnel. Refer to Note 21 for detailed disclosure.

28. Risk management

Financial risk management

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

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

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

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

28. Risk management (continued)

The entity monitors and manages the financial risks relating to the operations of the entity through internal risk reports which analyse exposures by degree and magnitude of risks.

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

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

28. Risk management (continued)

Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the entity maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

The entity has not defaulted on external loans, payables and lease commitment payments and no re-negotiation of terms were made on any of these instruments.

All of the entity's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly.

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

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	4 595 882	-	-	-
Gross finance lease obligation	1 350 175	414 667	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	28 910 375	-	-	-
Gross finance lease obligation	1 448 725	1 345 635	414 666	-

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an on going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

All of the entity's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the entity.

Receivables are presented net of an allowance for impairment.

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

28. Risk management (continued)

Financial instrument	**2016**	**2015**
ABSA Bank - Cheque account	35 223	769 756
ABSA Bank - Fixed deposit	61 013	1 731 635
ABSA Bank - Fixed deposit	78 445	198 531
First National Bank - Fixed deposit	563 188	3 816 442
Receivables from exchange transactions	316 188	1 093 943
VAT receivables	1 185 490	2 520 686

The entity is exposed to a number of guarantees for housing loans of employees. Refer to note 26 for additional details.

The balances represent the maximum exposure to credit risk.

Market risk

Cash flow and fair value interest rate risk

The municipality's interest rate risk arises from finance lease liabilities and short term investments. Finance leases and short term investments at variable rates expose the municipality to cash flow interest rate risk. The sensitivity analysis for cash flow and fair value interest rate risk to which the municipality is exposed at the end of the reporting period is not considered material on profit and loss and were therefore not disclosed. During 2016 and 2015, the municipality's borrowings and investments at variable rates were denominated in the Rand.

29. Going concern

The 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.

During the year ended 30 June 2016, the municipality incurred a net loss of (R14 946 147) and the municipality's total liabilities exceed its assets by (R 5 141 131), in addition the municipality has a possible obligation of R36 million pending the court ruling as disclosed in note 26.

The major reason contributing toward the accumulated deficit, is provision, relating to the following:

1. Post-benefits employee contribution obligation - R 8 608 000.

Management will also make budgetary provision over the medium-term budget framework to contribute the surplus realised to finance the payables, this will ensure that in future the operational results of TMDM will improve to surplus.

30. Events after the reporting date

The were no material events to report after the reporting date.

31. Unauthorised expenditure

Opening balance	2 816 833	-
Unauthorised expenditure - current year expenditure	8 023 716	2 816 833
	10 840 549	**2 816 833**

Management performed a review of transactions and identified the above transactions to be unauthorised expenditure in accordance to the guidelines set per Chapter 1 of the MFMA. The unathorise expenditure relate to overspending on operational spending for VOTE 3: Planing and development

A Municipal Public Accountant Committee is to convene to analyse and review the findings on unathorised expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone or recover the unauthorised expenditure as stated above as waiting to be condoned.

Notes to the Financial Statements

32. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - current year	184 457	1 847 548
Less: Fruitless expenditure written-off as irrecoverable	-	(1 847 548)
	184 457	**-**

Management has performed a review of transactions and none of the transaction to be fruitless and wasteful expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

A Municipal Public Accountant Committee is to convene to analyse and review the findings on fruitless and wasteful expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone or recover the fruitless and wastful expenditure as stated above as waiting to be condoned.

33. Irregular expenditure

Opening balance	387 801	43 318 206
Less: Expenditure written-off as irrecoverable	-	(43 318 206)
Expenditure - SCM none compliance (see details below)	7 768 296	-
Overpayment - councillor remuneration	134 709	230 211
Overpayment - municipal manager remuneration	186 584	157 590
	8 477 390	**387 801**

Auditor General of South Africa has performed a review of transactions and identifiy transactions which did not comply with SCM Regulation, sec. 36 and 37 repectively diviation (emergency) and unsolicited bid to be irregular expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	500 000	500 000
Amount paid - current year	(500 000)	(500 000)
	-	**-**

Material losses through criminal conduct

The municipality incurred no material losses through criminal conduct during the reporting period.

Audit fees

Opening balance	94 087	-
Current year subscription / fee	2 232 799	2 726 601
Amount paid - current year	(2 326 886)	(2 632 514)
	-	**94 087**

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

PAYE and UIF

Opening balance	824 262	684 142
Current year subscription / fee	10 176 801	9 869 861
Amount paid - current year	(10 175 342)	(9 729 741)
	825 721	**824 262**

Pension and Medical Aid Deductions

Current year subscription / fee	10 102 429	8 965 088
Amount paid - current year	(10 102 429)	(8 965 088)
	-	-

VAT

VAT receivable	1 185 490	2 520 686

35. Municipal office occupation

The municipal head office situated at 1 Mampoi Street, Old parliament Building, Witsieshoek. The building is leased from Free State Department of Public Works for no rental consideration.

36. Prior period errors

36.1. Fleet management creditor

At the end of the prior year, the creditor relating to fleet management was overstated by an amount of R225,492. The impact is as follow:

Statement of Financial Position (30 June 2015)	
Decrease in fleet management payables	225 492
Statement of Financial Performance (30 June 2015)	
Decrease in general expense	(225 492)

36.2. Trade payables

At the end of the prior year, the retention creditors relating to different projects were overstated by an amount R287,456 and the trade creditors was overstated by an amount of R598,845.20. The impact is as follows:

Statement of Financial Position (30 June 2015)	
Decrease in Payables from Exchanage transaction	886 301
Statement of Financial Performance (30 June 2015)	
Decrease in general expense	(886 301)

36.3. Property, Plan and Equipment (minor assets)

During the current financial year, management conducted an assets verification processes and identified minor assets that has not previously been capitalised in the accounting records, these assets were previously recognised as expenditure.

36. Prior period errors (continued)

The review necessitated the adjustment and restatement of a total 1,722 minor assets which were capitalised on the assets register. The effect was adjusted, retrospectively, and the assets were included in the assets register with the deemed take-on date of 1 July 2009.

The effect of this correction is:

Statement of Financial Position (30 June 2014)	
Increase in Property, Plant and Equipment (cost)	1 941 178
Increase in Property, Plant and Equipment (Accumulated Depreciation)	(647 718)
Decrease in Accumulated Deficit	(1 293 460)
	-

Statement of Financial Performance (30 June 2015)	
Increase in Depreciation and Amortisation	172 158
Decrease in expenditure	53 446
	225 604

Statement of Financial Position (30 June 2015)	
Increase in Property, Plant and Equipment (Accumulated Depreciation)	(172 158)
Increase in Property, plant and equipment	(53 446)
	(225 604)

36.4. Property, Plant and Equipment (duplicated assets)

During the current financial year, management conducted an assets verification processes and identified assets that were duplicated on the assets register.

The effect was adjusted, retrospectively, and the assets were excluded, from the earliest period:

Statement of Financial Position (30 June 2014)	
Decrease in Property, Plan and Equipment (cost)	(191 784)
Decrease in Property, Plan and Equipment (Accumulated Depreciation)	37 316
Increase in Accumulated Deficit	154 468
	-

36.5. Receivables from non-exchange transaction

In the prior financial year, receivables was erroneously classified as Receivables from non-exchange Transactions and not as Receivables from Exchange Transactions.

The impact of re-classification is as follows:

Statement of Financial Position (30 June 2015)	
Decrease in Receivables from Non-Exchange Transactions	(1 251 534)
Increase in Receivables from Exchange Transactions	1 251 534
	-

36.6. Provision for post-retirement medical aid benefit liability

The provision for post-retirement medical aid benefit liability has not been recognised in the past.

The correction of the error resulted in adjustment as follow:

36. Prior period errors (continued)
Statement of Financial Position (30 June 2014)

Increase in defined benefit obligation	(4 591 000)
Increase in Accumulated deficit	4 591 000
	-

Statement of Financial Position (30 June 2015)

Increase in defined benefit obligation	(580 000)

Statement of Financial Performance (30 June 2015)

Increase in Employee Cost	580 000

36.7. Work in progress

In the prior financial year, infrastructure assets (work in progress) was erroneously expense under classification category of grants and subsidies paid

The effect of this correction is:

Statement of financial position

Increase in work in progress	12 679 528

Statement of financial performance

Decrease in grants and subsidies paid	(12 679 528)

36.8. Legal expense

In the prior financial year, legal service which was rendered on the 2013/14 financial year was erroneously recorded in the current year.

The effect of this correction is:

Statement of financial position

Increase in payables from exchange transaction	1 154 902

Statement of financial perofrmance

Decrease in legal expense	(1 154 902)

36.9. Remuneration overpayment

In the prior financial year, the remuneration overpayment of accounting officer was errorneously recorded as receivables from exchange transaction instead of irregular expenditure.

The effect of this correction is:

Statement of financial position

Decrease in receivables from exchange transaction	(157 590)

Statement of financial performance

Increase in employee cost	157 590

37. Contracted services

Review of Strategic Objective	-	484 000
Contracted Financial Support	987 816	917 963

37. Contracted services (continued)

Performance Management System	1 079 764	1 273 949
	2 067 580	**2 675 912**

38. Grants and subsidies paid

Other subsidies		
Local government assistance - Own funding	1 610 414	5 365 551

39. Revenue

Sundry income	234 006	1 572 901
Interest received - investment	1 172 745	2 069 979
Government grants & subsidies	102 798 196	108 834 495
	104 204 947	**112 477 375**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sundry income	234 006	1 572 901
Interest received - investment	1 172 745	2 069 979
	1 406 751	**3 642 880**

The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants & subsidies	102 798 196	108 834 495

40. Budget differences

Material differences between budget and actual amounts

40.1. Sundry income - the actual revenue over the final budget indicates a decline of 98%, these was due to incorrect treatment of surplus cash errorneously included in the budget.

40.2. Interest received on investment - the actual revenue over the final budget indicates a decrease of 40%, these was due to withdrawals in the investment account which relates to funds that were de-invested to cover expenses in compensation of lack of growth in grants and subsidies which was well below the expected inflation rate in expenditure items of 6%.

40.3. Depreciation and amortisation – the actual expenditure over the final budget indicates an increase of 14%, these was as the results of capitalisation of minor assets which were previously expensed.

40.4. Debt impairment - the actual expenditure over the final budget indicates an increase of 100%, these was as a results of individual debt assessment which was only concluded at year end.

40.5. Finance charges - the actual expenditure over the final budget indicate an increase of 418%, these was as the results of misallocation of finance charges which was allocated under general expenditur

40.6. Repairs and maintenance – the actual expenditure over the final budget indicate an increase of 217%, these was due to repairs and maintenance on building and vehicles which was unforseen.

40.7. Contracted services – the actual contracted service expenditure over the final budget indicates an increase of 176%, these was as a result of misallocation of contracted services in relation to PMS Support which was allocated under general expenditure

40. Budget differences (continued)

40.8. Grants and subsidies paid - the acutal expenditure over the final budget indicate a decrease of 65%, these was as a results of incorrect classification of work in capital which was expensed as grants and subsidies paid in the past.

40.9. Receivables from exchange transaction - the actual receibables from exchange transaction over the final budget indicate a decrease of 84%, these was due to a overstatement of receivables account and correction of irregular expenditure which was accounted as receivables.

40.10 VAT Receivables – the actual VAT receivable over the final budget indicates an increase of 100% these was due to the fact that VAT refunds for the periods June 2016, still outstanding from SARS.

40.11. Cash and cash equivalents – the actual cash and cash equivalents over the final budget indicates a decrease of 72%, this was due to settlement of payables towards the end of the financial year.

40.12. Property, plant and equipment – the actual property, plant and equipment over the final budget indicates a decrease of 39%, this was due to reprioritisation of expenditure which deferred the procurement of assets for the current year, the timing of purchases was delayed to the following financial year.

40.13. Payables from exchange transaction - the actual payables from exchange transaction over the final budget indacate a decrease of 59% these was due to reclassification of payable under dispute to contingent liability.

40.14. Unspent conditional grants and receipts – the actual unspent conditional grants and receipts over the final budget indicates an increase of 100%, this was due to late appointment of consultant on the project.

40.15. Finance lease obligation (non-current) – the actual finance lease obligation over the final budget indicates a decrease of 75%, this was due to incorrect budget projection on lease.

40.16. Employee benefit obligation – the actual employee benefit obligation over the final budget indicates a variation of 337%, this was due to prior period error of post benefits relating to medical aid which was not provided in the statement of financial position.