THABO MOFUTSANYANA DISTRICT MUNICIPALITY
Financial statements
for the year ended 30 June 2015
Auditor-General of South Africa

General Information

Legal form of entity	District Municipality (DC19)
Mayoral committee	
Executive Mayor	Mrs. M Vilakazi
	Dr. Mzangwa (Resigned 03/07/2014)
	Mr. MM Radebe (Chief Whip)
	Mr. M Maduna (Speaker)
	Ms. M Motloung (MPAC Chair)
	Mr. G Bengell (Elected 04/09/2014
	Mr. T Mkhwanazi (Resigned 30/07/2014)
	Mr. G Mokotso (Elected 04/09/2014)
	Mr. M Mamba
	Mr. P Mavundla
	Mrs. J Radebe
	Mr. CJ Makhoba
	Mr. S Motaung
	Ms M Visagie
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 Tshbalala
	Ms. TN Masiteng
	Ms. Y Jacobs
	Mr. L Mohlabi - Deceased
	Ms. E Mohoaladi
	Ms. O Tolofi
	Mr. T Thebe
	Mr. M Lebesa
	Ms. P Lebesana
	Mr. T Mosikidi
	Ms. L Klynhans (Resigned 04/09/2014)
	Mr. PB Beukes (Elected 30/10/2014)
	Ms. MA Mokoena
	Ms. HE Mokoena
	Mr. TJ Tseki
	Mr. T Ramaele
	Mr. MA Nhlapo
	Mr. PB Matsunyane (Deceased)
	Ms. T Tigeli (29/05/2015)

General Information

Grading of local authority	Grade 11
Accounting Officer	Ms. TPM Lebenya (Appointed 1 March 2015) Mr. SK Khote (Acting Accounting Officer 01 November 2014) Mr. B Molotsi (resigned: 3 November 2014)
Chief Finance Officer (CFO)	Mr. HI Lebusa
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

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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)
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
RSC	Regional Service Council
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
RSC	Regional Service Council
IFRS	International Financial Reporting Standards
PPPFA	Preferential Procurement Policy Framework Act

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 was 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 place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the 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 is reviewed the municipality’s cash flow forecast for the year to 30 June 2016 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.

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

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 68, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

TPM Lebenya
Accounting Officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015. 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 x times per annum as per its approved terms of reference. During the current year x number of meetings were held.

Name of member	Number of meetings attended
Mr. G.A Ntsala (Chairperson)	5
Mrs. S.D Lebeko (Member)	2
Mr. T.E Femele (Member)	5
Mr. M.K Mojatau (Member)	5

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 (delete if not applicable);
- 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.

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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 accompanying financial statements of the THABO MOFUTSANYANA DISTRICT MUNICIPALITY which comprise the statement of financial position as at 30 June 2015, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 7 to 68.

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 [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] , and in the manner required by the Companies Act of South Africa [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

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.

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

31 August 2015

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2015.

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 2015, the municipality had accumulated deficits of R (13 022 741) and that the municipality's total liabilities exceed its assets by R (13 022 741).

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 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Current Assets			
Receivables from non-exchange transactions	4	1 960 600	1 243 464
Receivables from non-exchange transactions - RSC Levies	5	-	7 212
VAT receivable	6	2 520 686	5 006 783
Cash and cash equivalents	7	6 516 365	27 199 475
		10 997 651	**33 456 934**
Non-Current Assets			
Property, plant and equipment	8	10 989 620	6 927 525
Intangible assets	9	2 938 975	983 231
		13 928 595	**7 910 756**
Total Assets		**24 926 246**	**41 367 690**
Liabilities			
Current Liabilities			
Finance lease obligation	10	1 064 326	428 496
Payables from exchange transactions	11	32 910 169	27 893 475
Unspent conditional grants	12	214 983	-
		34 189 478	**28 321 971**
Non-Current Liabilities			
Finance lease obligation	10	1 553 509	978 555
Provision for long service awards	13	2 206 000	1 968 000
		3 759 509	**2 946 555**
Total Liabilities		**37 948 987**	**31 268 526**
Net Assets		**(13 022 741)**	**10 099 164**
Accumulated (deficit) / surplus		(13 022 741)	10 099 164

The accounting policies on pages 14 to 37 and the notes on pages 38 to 68 form an integral part of the financial statements.

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
Revenue			
Revenue from exchange transactions			
Sundry income	16	1 572 901	248 054
Interest received - investment	15	2 069 979	2 473 286
Total revenue from exchange transactions		**3 642 880**	**2 721 340**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	14	108 834 496	86 206 986
Total revenue	39	**112 477 376**	**88 928 326**
Expenditure			
Employee related costs	21	(47 935 764)	(40 950 685)
Remuneration of councillors	21	(9 366 239)	(9 043 926)
Depreciation and amortisation	18	(2 810 009)	(1 154 121)
Debt impairment	17	(7 212)	(48 155)
Finance costs	19	(371 679)	(41 997)
Repairs and maintenance	22	(1 694 809)	(1 489 696)
Contracted services	37	(2 675 912)	(2 208 836)
Grants and subsidies paid	38	(18 492 134)	(19 305 720)
General Expenses	20	(52 315 662)	(19 486 654)
Total expenditure		**(135 669 420)**	**(93 729 790)**
Operating deficit		**(23 192 044)**	**(4 801 464)**
Gain on disposal of assets and liabilities		70 130	15 848
Deficit for the year		**(23 121 914)**	**(4 785 616)**

The accounting policies on pages 14 to 37 and the notes on pages 38 to 68 form an integral part of the financial statements.

Statement of Changes in Net Assets

Figures in Rand	Accumulated (deficit) / surplus	Total net assets
Opening balance as previously reported	15 010 559	15 010 559
Adjustments		
Correction of errors	(125 780)	(125 780)
Balance at 01 July 2013 as restated	**14 884 779**	**14 884 779**
Changes in net assets		
Surplus / (Deficit) for the year	(4 785 615)	(4 785 615)
Total changes	(4 785 615)	(4 785 615)
Balance at 01 July 2014	**10 099 175**	**10 099 175**
Changes in net assets		
Surplus / (Deficit) for the year	(23 121 916)	(23 121 916)
Total changes	(23 121 916)	(23 121 916)
Balance at 30 June 2015	**(13 022 741)**	**(13 022 741)**

Note 36

The accounting policies on pages 14 to 37 and the notes on pages 38 to 68 form an integral part of the financial statements.

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Grants		108 372 228	83 200 049
Interest income		2 069 979	2 473 286
Other receipts		56 740	51 803
		110 498 947	85 725 138
Payments			
Employee costs		(57 230 723)	(49 732 534)
Suppliers		(65 577 563)	(46 787 058)
Finance costs		(371 679)	(41 997)
		(123 179 965)	(96 561 589)
Net cash flows from operating activities	23	**(12 681 018)**	**(10 836 451)**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(6 553 416)	(5 944 666)
Proceeds from sale of property, plant and equipment	8	129 208	19 500
Purchase of other intangible assets	9	(2 333 500)	(288 764)
Net cash flows from investing activities		**(8 757 708)**	**(6 213 930)**
Cash flows from financing activities			
Finance lease payments		839 106	1 171 647
Benefits paid relating to long service awards		(83 491)	(236 076)
Net cash flows from financing activities		**755 615**	**935 571**
Net increase/(decrease) in cash and cash equivalents		**(20 683 111)**	**(16 114 810)**
Cash and cash equivalents at the beginning of the year		27 199 475	43 314 285
Cash and cash equivalents at the end of the year	7	**6 516 364**	**27 199 475**

The accounting policies on pages 14 to 37 and the notes on pages 38 to 68 form an integral part of the financial statements.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash 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	27 968 240	-	**27 968 240**	1 572 901	**(26 395 339)**	40.1
Interest received - investment	2 544 000	-	**2 544 000**	2 069 979	**(474 021)**	40.2
Total revenue from exchange transactions	**30 512 240**	**-**	**30 512 240**	**3 642 880**	**(26 869 360)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	108 865 156	-	**108 865 156**	108 834 496	**(30 660)**	
Total revenue	**139 377 396**	**-**	**139 377 396**	**112 477 376**	**(26 900 020)**	
Expenditure						
Personnel	(46 667 886)	-	**(46 667 886)**	(47 935 764)	**(1 267 878)**	
Remuneration of councillors	(8 441 089)	-	**(8 441 089)**	(9 366 239)	**(925 150)**	40.3
Depreciation and amortisation	(1 751 289)	-	**(1 751 289)**	(2 810 009)	**(1 058 720)**	40.4
Impairment loss/ Reversal of impairments	-	-	**-**	(7 212)	**(7 212)**	40.5
Finance costs	(70 000)	-	**(70 000)**	(371 679)	**(301 679)**	40.6
Repairs and maintenance	(1 480 000)	-	**(1 480 000)**	(1 694 809)	**(214 809)**	40.7
Contracted Services	(1 767 963)	-	**(1 767 963)**	(2 675 912)	**(907 949)**	40.8
Grants and subsidies paid	(15 887 865)	-	**(15 887 865)**	(18 492 134)	**(2 604 269)**	40.9
General Expenses	(56 944 085)	-	**(56 944 085)**	(52 315 662)	**4 628 423**	
Total expenditure	**(133 010 177)**	**-**	**(133 010 177)**	**(135 669 420)**	**(2 659 243)**	
Operating deficit	**6 367 219**	**-**	**6 367 219**	**(23 192 044)**	**(29 559 263)**	
Gain on disposal of assets and liabilities	-	-	**-**	70 130	**70 130**	
(Deficit) / Surplus	**6 367 219**	**-**	**6 367 219**	**(23 121 914)**	**(29 489 133)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**6 367 219**	**-**	**6 367 219**	**(23 121 914)**	**(29 489 133)**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash 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 non-exchange transactions	1 142 743	-	**1 142 743**	1 960 600	**817 857**	40.10
VAT receivable	-	-	**-**	2 520 686	**2 520 686**	40.11
Cash and cash equivalents	2 591 555	-	**2 591 555**	6 516 365	**3 924 810**	40.12
	3 734 298	**-**	**3 734 298**	**10 997 651**	**7 263 353**	
Non-Current Assets						
Property, plant and equipment	6 614 669	-	**6 614 669**	10 989 620	**4 374 951**	40.13
Intangible assets	400 000	-	**400 000**	2 938 975	**2 538 975**	40.14
	7 014 669	**-**	**7 014 669**	**13 928 595**	**6 913 926**	
Total Assets	**10 748 967**	**-**	**10 748 967**	**24 926 246**	**14 177 279**	
Liabilities						
Current Liabilities						
Finance lease obligation	27 326 750	-	**27 326 750**	1 064 326	**(26 262 424)**	40.15
Payables from exchange transactions	22 548 256	-	**22 548 256**	32 910 167	**10 361 911**	40.16
Unspent conditional grants	-	-	**-**	214 983	**214 983**	40.17
	49 875 006	**-**	**49 875 006**	**34 189 476**	**(15 685 530)**	
Non-Current Liabilities						
Finance lease obligation	978 555	-	**978 555**	1 553 509	**574 954**	40.15
Provision for long service awards	1 968 000	-	**1 968 000**	2 206 000	**238 000**	40.18
	2 946 555	**-**	**2 946 555**	**3 759 509**	**812 954**	
Total Liabilities	**52 821 561**	**-**	**52 821 561**	**37 948 985**	**(14 872 576)**	
Net Assets	**(42 072 594)**	**-**	**(42 072 594)**	**(13 022 739)**	**29 049 855**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated (deficit) / surplus	(42 072 594)	-	**(42 072 594)**	(13 022 739)	**29 049 855**	

The accounting policies on pages 14 to 37 and the notes on pages 38 to 68 form 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 from non-exchange transaction

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, 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 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.

1.3 Property, plant and equipment (continued)

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.

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 - 7 years
Motor vehicles	Straight line	5 - 9 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 assets 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.

1.4 Intangible assets (continued)

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.

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.

1.6 Financial instruments (continued)

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.

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.

Accounting Policies

1.6 Financial instruments (continued)

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 municipality 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 non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions - RSC Levies	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality 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
Fiance 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 reciepts	Financial liability measured at amortised cost

Accounting Policies

1.6 Financial instruments (continued)

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 municipality 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 municipality measures a financial asset and financial liability initially at its fair value.

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

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality 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 municipality 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.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- 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 municipality 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:

1.6 Financial instruments (continued)

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.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
  - 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 municipality 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 recognise 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 recognise 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 municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality 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 municipality 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.

1.6 Financial instruments (continued)

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 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 expense in surplus or deficit

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

1.6 Financial instruments (continued)

- 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.

Finance leases - lessee

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

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

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

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

Subsequent to initial recognition, the asset is account 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 held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

1.8 Impairment of cash-generating assets (continued)

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:

Identification

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

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

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

Value in use

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

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

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 held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

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 service 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 service.

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 recognise 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 measure 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 recognise 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.

Accounting Policies

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 al 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.

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.

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.

Accounting Policies

1.11 Provisions and contingencies (continued)

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;
- 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.

1.11 Provisions and contingencies (continued)

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.

Accounting Policies

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 arise 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 -

Accounting Policies

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 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The 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.

Accounting Policies

1.21 Offsetting

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

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 a 10% and R100 000 deviation exists. All material differences are explained in the Statement of comparison of budget and actual amounts.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30. 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.

Accounting Policies

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.

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 2015 or later periods:

GRAP 105: Transfers of functions between entities under common control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expect to adopt the standard for the first time once it becomes effective.

The impact of the amendments is not material

GRAP 106: Transfers of functions between entities not under common control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expect to adopt the standard for the first time once it becomes effective.

The impact of the amendments is not material

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expect to adopt the standard for the first time once it becomes effective.

The impact of the amendments is not material

GRAP32: Service Concession Arrangements: Grantor

The standard applies to 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 providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expect to adopt the standard for the first time once it becomes effective.

The impact of the amendments is not material

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expect to adopt the standard for the first time once it becomes effective.

The impact of the amendments is not material

GRAP 20: Related parties

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to ensure that a reporting entity's annual 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.

The municipality (in this standard referred to as the reporting entity) applies this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two 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 annual 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 states that a 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
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expect to adopt the standard for the first time once it becomes effective.

The impact of the amendments is not material

3. Financial assets by category

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

2015	**Financial assets at amortised cost**	**Total**
Receivables from non-exchange transactions	1 960 600	1 960 600
Cash and cash equivalent	6 516 365	6 516 365
VAT Receivables	2 520 686	2 520 686
	10 997 651	**10 997 651**

2014	**Financial assets at amortised cost**	**Total**
Receivables from non-exchange transaction	1 243 464	1 243 464
Cash and cash equivalent	27 199 475	27 199 475
VAT Receivables	5 006 783	5 006 783
Receivables from non-exchange transactions - RSC Levies	7 212	7 212
	33 456 934	**33 456 934**

4. Receivables from non-exchange transactions

Sundry debtors	1 246 535	547 169
Prepaid expenses	-	20 833
Suspense account - unidentified payment	304 143	304 143
Underpayment of PAYE	22 292	10 081
Seconded councillor's salaries over payment	1 784 288	1 784 288
Councillors over payments	364 922	338 530
Motheo District funds receivable	709 066	709 066
Impairment provision	(2 470 646)	(2 470 646)
	1 960 600	**1 243 464**

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.

Figures in Rand	2015	2014

4. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2015, R 2,470,646 (2014: R 2,470,646) sundry receivables from non-exchange transaction were impaired and provided for.

The ageing of these receivables is as follows:

3 to 6 months	717 136	248 876
Over 6 months	3 714 110	3 465 234
	4 431 246	**3 714 110**

Reconciliation of impairment of receivables from non-exchange transactions

Opening balance	2 470 646	2 422 492
Impairment - current year	-	48 154
	2 470 646	**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 transaction - RSC Levies

Levies	-	49 087 074
Impairment	-	(49 079 862)
	-	**7 212**

Receivables from non-exchange transaction - RSC Levies written off

At 30 June 2015, other receivables from non-exchange transactions - RSC levies with a carrying amount of R 49,087,074 were written off as irrecoverable debt.

The amount written off as irrecoverable was R 47,570,913 as of 30 June 2015 (2014: R 0)

Receivables from non-exchange transaction - RSC Levies impaired

As of 30 June 2015, other receivables from non-exchange transactions - RSC levies with a carrying amount of R 0 (2014: R 49,087,074) were impaired and provided for.

The amount amount of the provision was R 0 as of 30 June 2015 (2014: R 49,079,862).

The ageing of these receivables is as follows:

Over 12 months	-	49 087 074

Reconciliation of provision for impairement of receivables from non-exchange transactions - RSC Levies

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

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.

Notes to the Financial Statements

Figures in Rand	2015	2014

6. VAT receivable

VAT	2 520 686	5 006 783

The municipality accounts for VAT on the payment basis.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	769 756	2 591 555
Short-term deposits	5 746 608	24 607 920
	6 516 364	**27 199 475**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA BANK - Cheque Account - 770-150-841	769 756	2 591 555	6 396 852	769 756	2 591 555	6 396 852
ABSA BANK - Fixed Deposit - 206-206-4985	198 531	327 646	1 487 547	198 531	327 646	1 487 547
FNB BANK - Fixed Deposit - 712-733-40-226	3 816 442	3 604 912	3 441 351	3 816 442	3 604 912	3 441 351
ABSA BANK - Fixed Deposit - 207-253-7209	1 731 635	20 000 000	31 355 415	1 731 635	20 000 000	31 355 415
ABSA BANK - Call Account - 921-300-0832	-	675 362	633 120	-	675 362	633 120
Total	**6 516 364**	**27 199 475**	**43 314 285**	**6 516 364**	**27 199 475**	**43 314 285**

8. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	2 398 648	(962 824)	1 435 824	1 711 393	(643 956)	1 067 437
Motor vehicles	2 692 400	(904 555)	1 787 845	2 563 645	(602 789)	1 960 856
IT equipment	7 231 604	(2 392 520)	4 839 084	3 628 090	(1 282 961)	2 345 129
Leased assets	3 453 048	(526 181)	2 926 867	1 580 444	(26 341)	1 554 103
Total	**15 775 700**	**(4 786 080)**	**10 989 620**	**9 483 572**	**(2 556 047)**	**6 927 525**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	1 067 437	687 255	-	(318 868)	1 435 824
Motor vehicles	1 960 856	373 244	(47 680)	(498 575)	1 787 845
IT equipment	2 345 129	3 620 313	(11 398)	(1 114 960)	4 839 084
Leased assets	1 554 103	1 872 604	-	(499 840)	2 926 867
	6 927 525	**6 553 416**	**(59 078)**	**(2 432 243)**	**10 989 620**

Figures in Rand	2015	2014

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	483 704	729 199	-	(145 466)	1 067 437
Motor vehicles	219 911	1 877 254	-	(136 309)	1 960 856
IT equipment	1 112 378	1 757 769	-	(525 018)	2 345 129
Leased assets	41 893	1 580 444	(3 652)	(64 582)	1 554 103
	1 857 886	**5 944 666**	**(3 652)**	**(871 375)**	**6 927 525**

Other information

Proceeds for property, plant and equipment that were impaired, lost or given up and is included in surplus or deficit	2015	2014
IT equipment	-	19 500
Motor vehicles	129 208	-
	129 208	**19 500**

Assets with a cost of R 81,674 and a zero book value are still in use at 30 June 2015.

Office equipment with a carrying value of R 2,926,867 (**2014**: R 1,554,103) is leased under a finance lease. Refer to note 9

9. Intangible assets

	2015			2014		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4 093 764	(1 154 789)	2 938 975	1 760 263	(777 032)	983 231

Reconciliation of intangible assets - 2015

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

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	982 009	288 764	(287 542)	983 231

Notes to the Financial Statements

Figures in Rand	2015	2014

10. Finance lease obligation

Minimum lease payments due		
- within one year	1 448 725	616 299
- in second to fifth year inclusive	1 760 301	1 129 882
	3 209 026	1 746 181
less: future finance charges	(591 191)	(339 130)
Present value of minimum lease payments	**2 617 835**	**1 407 051**
Present value of minimum lease payments due		
- within one year	1 064 327	428 496
- in second to fifth year inclusive	1 553 508	978 555
	2 617 835	**1 407 051**

Non-current liabilities	1 553 509	978 555
Current liabilities	1 064 326	428 496
	2 617 835	**1 407 051**

It is the municipality's 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 30% (2014: 15% to 21%).

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

Trade payables	9 843 727	5 584 740
Medical aid - PJ Du Plessis	8 550	-
Accrued leave pay	3 209 554	2 714 121
Accrued bonus	833 356	782 535
Other payables	824 695	684 142
Unallocated deposits - RSC levies	-	1 516 161
Councillors pension funds	4 020	4 020
UIF over deducted from employees	191 563	191 563
Councillors salaries under payments	5 535	5 535
Legal fees - RSC Levies	15 049 155	15 049 155
Compensation commissioner	1 849 282	1 355 371
Bank transactions outstanding at year end	-	5 881
Metropolitan	251	251
Fleet management payables	1 090 481	-
	32 910 169	**27 893 475**

12. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Rural Roads Assets Management System Grant	214 983	-
Movement during the year		
Balance at the beginning of the year	-	2 901 068
Additions during the year	21 377 256	3 198 049
Income recognition during the year	(21 162 273)	(4 925 986)
Deducted from equitable share grant	-	(1 173 131)
	214 983	**-**

Notes to the Financial Statements

Figures in Rand	2015	2014

12. Unspent conditional grants (continued)

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 funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date. The expected value of each employee's long service award is projected to the next interval by allowing for future growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation, allowing for mortality, retirements and withdrawals from service.

Sensitivity analysis

The valuation is only an estimate of the cost of providing Long service award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of the results to changes in certain key variables, the municipality has recalculated the liability using the following assumptions:
- 20% increase/decrease in the assumed level of withdrawal rates (2014: 20%);
- 1% increase/decrease in the Normal Salary cost inflation (2014: 1%)

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect in the current year (2015) is as follows

	- 20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total accrued liability	2,380,000	2,206,000	2,055,000
Current service cost	418,000	375,000	338,000
Interest cost	230,000	212,000	197,000

The effect in the prior year (2014) is as follow

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total accrued liability	2,126,000	1,968,000	1,831,000
Current service cost	380,000	340,000	307,000
Interest cost	167,000	153,000	141,000

Notes to the Financial Statements

Figures in Rand	2015	2014

13. Provision for long service awards (continued)

Normal salary inflation

The cost of the long service award is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the normal salary inflation assumption. The effect in the current year 2015 is as follows:

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total accrued liability	2,051,000	2,206,000	2,379,000
Current service cost	346,000	375,000	408,000
Interest costs	197,000	212,000	229,000

The effect in the prior year (2014) is as follows:

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total accrued liability	1,824,000	1,968,000	2,129,000
Current service cost	312,000	340,000	372,000
Interest costs	140,000	153,000	167,000

Change in the value of the obligation

GRAP 25 deals with the recognition of the cost of employee benefits, on an accruals basis, in the municipality accounts.

If we assume that the long service award benefit policy of the municipality remains unchanged over the next 36 months, a projection of the municipality's unfunded accrued liability and future service cost can be seen as follows:

	Current valuation date 30 June 2015	1 Year following the valuation date	2 Years following the valuation date	3 Years following the valuation date
PV of the obligation as the previous valuation date	1 968 000	2 206 000	2 753 000	3 090 445
Current service cost	340 000	375 000	383 671	394 142
Interest cost	153 000	212 000	255 784	288 303
Benefits paid	(152 000)	(40 000)	(302 000)	(277 000)
Actuarial Loss / (Gain)	(103 000)	-	-	-
	2 206 000	**2 753 000**	**3 090 455**	**3 495 890**

	Current valuation date 30 June 2015	1 Year following the valuation date	2 Years following the valuation date	3 Years following the valuation date
Liability recognised in the balance sheet	2 206 000	2 753 000	3 090 455	3 495 890
Current service cost in the income statement	340 000	375 000	383 671	394 142
Interest cost in the income statement	153 000	212 000	255 784	288 303
Actuarial Loss / (Gain)	(103 000)	-	-	-
	2 596 000	**3 340 000**	**3 729 910**	**4 178 335**

Notes to the Financial Statements

Figures in Rand	2015	2014

13. Provision for long service awards (continued)

The amount recognised in the statement of financial position are as follow:

Carrying value		
Balance at the beginning	(1 968 000)	(1 942 000)
Current service	(340 000)	(325 000)
Interest cost	(153 000)	(149 000)
Benefits paid	83 491	236 076
Actuarial gain / (loss)	171 509	211 924
	(2 206 000)	**(1 968 000)**

Net expense recognised in the statement in the statement of financial performance

Current service cost	340 000	325 000
Interest cost	153 000	149 000
Actuarial (gain) / losses	(171 509)	(211 924)
	321 491	**262 076**

Key assumptions used

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

Our discount rate was therefore set as the yield of the R208 South African government bond as at the valuation date. The actual yield on the R208 bond was sourced from the RMB Global Markets website on the 30th of June 2014.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between current conventional bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets website. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2014 of 6.79%. The next salary increase was assumed to take place on 01 July 2015.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Notes to the Financial Statements

Figures in Rand	2015	2014

14. Government grants and subsidies

Operating grants

Equitable share	86 946 000	81 281 000
Financial Management Grant	1 250 000	1 250 000
Department of Public Works Programme	1 282 000	1 000 000
Rural Roads Assets Management System Grant	1 670 017	-
LG Seta skills development grant	84 872	58 049
Service SETA Grant	4 041 450	-
Municipal System Improvement Grant	934 000	890 202
COGTA - Legal Support	12 626 156	-
COGTA - Provincial Infrastructure Grant	-	1 727 735
	108 834 495	**86 206 986**

Equitable Share

Amount received per DORA	86 946 000	81 281 000
Amount actually received	(86 946 000)	(80 002 000)
Deducted from outstanding conditional grant (FMG)	-	(35 012)
Deducted from outstanding conditional grant (EPWP)	-	(1 138 119)
Over deduction on current year equitable share per DORA	-	(105 869)
	-	-

Rural Roads Assets Management System Grant

Current-year receipts	1 885 000	-
Conditions met - transferred to revenue	(1 670 017)	-
	214 983	-

Department of Public Works Programme

Balance unspent at beginning of year	-	1 138 119
Current-year receipts	1 282 000	1 000 000
Conditions met - transferred to revenue	(1 282 000)	(1 000 000)
Deducted from equitable share	-	(1 138 119)
	-	-

Finance Management Grant

Balance unspent at beginning of year	-	35 012
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
Deducted from equitable share	-	(35 012)
	-	-

Municipal System Improvement Grant (MSIG)

Balance unspent at beginning of year	-	202
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 202)
	-	-

Notes to the Financial Statements

Figures in Rand	2015	2014

14. Government grants and subsidies (continued)

COGTA - Provincial Infrastructure Grant

Balance unspent at beginning of year	-	1 727 735
Conditions met - transferred to revenue	-	(1 727 735)
	-	-

LG Seta - skills development grant

Current-year receipts	84 872	58 049
Conditions met - transferred to revenue	(84 872)	(58 049)
	-	-

COGTA - Legal Support

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

Service SETA Grant

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

15. Interest received - investments

Finance income		
Bank	2 069 979	2 473 286

The amount included in Investment revenue arising from exchange transactions amounted to R 2,069,979.

16. Sundry income

Tender documents	56 740	51 803
Interest received from SARS	-	196 251
Unallocated deposits recognised in the current year	1 516 161	-
	1 572 901	**248 054**

17. Debt impairement

Contribution to doubtful debt allowance	7 212	48 155

18. Depreciation and amortisation

Property, plant and equipment	2 432 243	866 580
Intangible assets	377 767	287 541
	2 810 010	**1 154 121**

Notes to the Financial Statements

Figures in Rand	2015	2014

19. Finance costs

Finance leases	371 679	41 997

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 371,679 (2014: R 41,997).

20. General expenses

Advertising	452 192	604 448
Auditors remuneration	2 715 047	2 363 097
Bank charges	71 501	47 091
Cleaning	62 773	107 528
Computer expenses	1 645 015	1 039 971
Disaster intervention	1 739 531	-
Entertainment	1 032 818	174 201
Thabo Mofutsanyana Day	-	41 456
Pest control	25 900	-
Insurance	282 341	213 818
District tourism	85 727	29 250
Marketing	141 199	237 924
Municipal services	49 962	58 686
Awareness campaign - branding material and catering	168 956	41 625
Magazines, books and periodicals	637 932	773 509
Gender and disability	70 350	-
Motor vehicle expenses	986 473	331 156
SCM Electronic system	255 544	-
EPWP incentive grant - salaries expenditure	3 943 691	2 291 060
Phumelela Local Municiaplity - accounting support	-	270 000
Placement fees	21 696	12 697
Poverty alleviation expense - food security expense	540 308	-
Mayoral Imbizo - catering, transport, venue hire and advertisement	1 255 579	217 568
Printing and stationery	489 756	511 104
SMME Development	58 500	171 022
Uniform and protective clothing	10 152	82 042
Finalisation of credible IDP - catering expenses	84 694	109 368
Mandela day - cotton boiler suits	166 200	80 000
Ward participation system	35 200	-
Rural community support	370 895	-
Subscriptions and membership fees	65 860	537 291
Telephone and fax	883 447	748 331
Training	2 182 731	852 541
Travel and subsistence	3 819 386	1 865 360
Legal fees	19 047 016	1 543 781
Service SETA Learnership	3 807 000	-
Minor expenditure incurred	268 613	116 078
Arts and culture development - catering, transport and venue expenses	192 591	185 000
Public participation	217 154	292 291
MFMA programme - accounting support expenditure	503 098	576 658
District audit committee	163 877	112 580
Sampling of food and water	316 725	233 527
Bursary fund	1 435 095	1 078 206
Sports development programme	479 268	396 590
HIV Aids	49 235	4 205
Lease rentals on operating lease	1 484 635	1 135 592
	52 315 663	**19 486 652**

Figures in Rand	2015	2014

21. Remuneration related cost

Basic	34 304 378	29 961 070
Bonus	1 785 441	1 556 748
Medical aid - company contributions	3 277 353	2 944 463
UIF	175 516	166 728
SDL	457 074	339 994
Other payroll levies	966 323	244 061
Leave pay provision charge	495 433	46 239
Overtime payments	262 785	51 752
Long-service awards	238 000	262 076
Car allowance	4 405 210	4 174 868
Housing benefits and allowances	151 606	180 102
Cellphone allowance	358 796	373 953
Leave redemption	1 057 850	648 630
	47 935 765	**40 950 684**

Remuneration of Accounting Officer - Ms. TPM Lebenya

Annual Remuneration	767 119	480 500
Car allowance	212 667	170 833
Contributions to UIF, Medical and Pension Funds	58 092	8 099
Travel, motor car, accommodation, subsistence and other allowance	421 293	74 789
Cellphone allowance	15 600	12 000
	1 474 771	**746 221**

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	535 391
Car allowance	60 000	180 000
Housing allowance	24 000	72 000
Contributions to UIF, Medical and Pension Funds	9 542	18 474
Travel, motor car, accommodation, subsistence and other allowance	198 510	343 057
Cellphone allowance	6 000	18 000
	534 283	**1 166 922**

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

Remuneration of Chief Financial Officer - Mr. HI Lebusa

Annual Remuneration	798 685	713 371
Car allowance	180 000	180 000
Performance Bonuses	91 321	-
Contributions to UIF, Medical and Pension Funds	22 843	17 367
Travel, motor car, accommodation, subsistence and other allowance	205 836	141 006
Cellphone	14 400	14 400
	1 313 085	**1 066 144**

Figures in Rand	2015	2014

21. Remuneration related cost (continued)

Remuneration of Executive Manager Corporate Service - Mr. SK Khote

Annual Remuneration	718 050	512 500
Car allowance	205 000	170 833
Contributions to UIF, Medical and Pension Funds	11 665	8 099
Travel, motor car, accommodation, subsistence and other allowance	213 065	37 178
Cellphone	14 400	12 000
	1 162 180	**740 610**

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

Remuneration of councillors

Executive Mayor - Ms. M Vilakazi	871 854	568 662
Executive Mayor - Dr. BE Mzangwa	-	885 890
Chief Whip - Mr. MM Radebe	624 446	581 530
Speaker - Mr. MS Maduna	384 905	365 829
Chairperson MPAC - Ms. M Motloung	398 303	-
Mayoral Committee Members	4 816 270	4 394 074
Councillors	2 270 461	2 247 941
	9 366 239	**9 043 926**

In-kind benefits

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.

Notes to the Financial Statements

Figures in Rand	2015	2014

22. Repairs and maintenance

Maintenance buildings	240 236	421 319
Maintenance general	1 022 691	617 815
Maintenance rental equipment	431 511	450 933
	1 694 438	**1 490 067**

23. Cash (used in) generated from operation

Deficit	(23 121 916)	(4 785 615)
Adjustments for:		
Depreciation and amortisation	2 810 009	1 154 121
Loss on sale of assets and liabilities	(70 130)	(15 848)
Finance costs - Finance leases	371 679	41 997
Impairment deficit	7 212	48 155
Movements in retirement benefit assets and liabilities	238 000	262 076
Expenditure incurred from provision for long service awards	83 490	-
Changes in working capital:		
Receivables from non-exchange transactions	(724 348)	(248 877)
Other receivables from non-exchange transactions	7 212	-
Payables from exchange transactions	5 016 694	(303 658)
VAT	2 486 097	(4 087 734)
Unspent conditional grants	214 983	(2 901 068)
	(12 681 018)	**(10 836 451)**

24. Financial liability by category

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

2015	**Financial liabilities at amortised cost**	**Total**
Finance lease - Non-current	1 064 327	1 064 327
Finance lease - current	1 553 508	1 553 508
Payables from exchange transactions	28 867 259	28 867 259
	31 485 094	**31 485 094**

2014	**Financial liabilities at amortised cost**	**Total**
Finance lease - Non-current	978 555	978 555
Finance lease - current	428 496	428 496
Payables from exchange transactions	24 396 819	24 396 819
	25 803 870	**25 803 870**

Notes to the Financial Statements

Figures in Rand	2015	2014

25. Commitments

Commitments in respect of operating expenditure

Approved and contracted for - Budget rolled forward	2015	2014
• Bolata Gravel Road Upgrade	-	2 527
• Brick Block Project - Qholaqhwe village	117 764	979 438
• Oxidation Ponds - Memel / Zamani	135 000	135 000
• Upgrading of gravel road - Petsana	16 948	126 728
• Compilation of annual financial statements	-	782 496
• Renovation of Community Services Office	-	24 355
• Supply and delivery of Laptop computers	-	32 000
• Supply and delivery of vehicles	-	171 308
• Performance management electronic system	-	175 675
• Supply and installation of Biometric system	-	404 057
• Review of Municipal strategy	-	493 624
• Employee wellness in the municipality	-	471 325
• Completion of outfall sewer, rising main, inlet. E & M Works	152 447	2 296 970
• Design and installation of solar street lights in MAP and Phumelela	118 372	469 843
• Development of rural road asset management system (RRAM for TMDM)	4 502 910	6 387 910
• Investigation of Irregular, Fruitless and Wasteful expenditure for period 2010/11, 2011/12 and 2012/13	-	112 860
• Supply and delivery of office furniture	-	305 217
• Development and implementation of disaster recovery plan	-	2 955 461
• Internet Service Provider (ISP)	1 653 300	-
• Disaster Communication System	2 833 570	-
• Upgrading of brick block paving phase 2 (Rietz)	318 381	-
• Upgrading of brick block paving (Lindley)	2 866 698	-
• Upgrading of brick block paving (Ladybrand)	480 698	-
• Disaster Recovery Plan and hosting	3 729 000	-
	16 925 088	**16 326 794**

Total operational commitments		
Already contracted for and authorised by accounting officer	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		
- within one year	527 139	173 945
- within two to five years	466 055	-
	993 194	**173 945**

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

Figures in Rand	2015	2014

26. Contingencies

RSC levy payers association vs Municipality

The municipality had a contingent liability of R80 million as a result of a legal dispute between the municipality and levy rate payers.

The case was settled out-of court between RSC Levy payers association and TMDM, both parties agreed on the following terms:

- RSC Levy payers association agreed to withdraw the action against TMDM as per case number 3332/2008 instituted in the Free State High Court, Bloemfontein.

- TMDM agreed to make once-off contribution in the amount of R18,000,000 towards the RSC Levy payers association costs in respect of the legal dispute as per case number 3332/2008.

The settlement agreement was signed by both parties on 10th December 2014.

The funding for settlement was received as follow:

- Department of Co-oporative Governance and Traditional Affair (CoGTA) conditional grant amounting to R 12,626,156
- TMDM Own funding amounting to R 5,373,844

MSMM Attorney vs Municipality

The municipality has a contingent liability of R2 000 000 as a result of a legal dispute between the municipality and MSMM Attorneys. The background and details of this contingent liability are provided below.

MSMM Attorneys have issued summons for an amount of R2 000 000 against the municipality. According to MSMM Attorneys this amount is for legal services they rendered for collecting outstanding levy debt for the municipality based on their arrangement with Thakangoaha Investment CC. The municipality has appointed Podbielski Mhlambi Inc Attorneys to defend the matter.

When the legislation on RSC levies was terminated on 30 June 2006, the municipality appointed Thakangoaha Investments CC in November 2007 to identify the outstanding levy payers and recover the outstanding levies due to the municipality. For this purpose, Thakangoaha appointed MSMM Attorneys to take the necessary legal action against these outstanding levy payers. Thakangoaha was to receive R150 for each of the then 13 000 outstanding cases, and also 20% of the total amount to be recovered from the levy payers.

As at February 2008, in an attempt to recover outstanding levies, MSMM issued 6 000 summons to levy payers. The municipality received numerous counter claims from levy payers. According to levy payers, summons issued did not comply with legal requirements. The municipality then sought legal opinion, which confirmed that summons issued did not comply with legal requirements.

MSMM Attorneys are now suing the municipality for not paying fees for legal services rendered by them based on instruction from Thakangoaha Investment CC. The municipality will defend this R2 000 000 claim by MSMM Attorneys based on legal advice received. It is expected that the court hearing for this matter will take place in 2015.

The municipality estimates to incur legal cost of R150 000 to defend the above matter.

Thakangoaha Investments vs Municipality

Thakangoaha Investments was originally awarded the tender relating to the collection of outstanding RSC levies in 2006/2007. Due to the unsuccessful attempts at collection of levies, incorrect legal practices followed and the legal nature of the RSC levies matter, the municipality had to terminate their contract and appoint Phodbielski Mhlambi Law Firm to correct the unlawful and unsuccessful attempts at collection made by Thakangoaha Investments and to proceed to defend the RSC levies matter in court.

Figures in Rand	2015	2014

26. Contingencies (continued)

Thakangoaha issued summon against the Municipality for an amount of R3 500 000 including interest and cost. The Municipality at that time failed to defend the matter. When the Deputy Sheriff attached the Municipality's property as a result of the judgement, the Municipality instructed Podbielski Mhlambi to apply for a Rescission of Judgement. This application was processed and the matter placed on the court-role.

The municipality has also filed a counter claim of R2 000 000 against Thakangoaha Investments. It is expected that a further R200 000 legal costs will be incurred to bring this matter to completion.

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 8000 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 R15 049 155 for fees and disbursements.

The outstanding legal fees of R15 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 900 000 in legal fees to its attorneys Sunil Narian Incorporated 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.

Name of employee	Effective date	Guarantee amount
Mazibuko Mwelase	25/05/2005	17 000
Mollo Ngobese	22/03/2006	17 000
Moloi Khesa	25/05/2005	17 000
Moloi Materonko	08/10/2002	13 000
Motloung Sylvia	30/01/2007	17 000
Mthombeni Sthembiso	01/10/2004	14 000
Dusse Ronald	01/07/2006	17 000
Majoro Matsiliso	01/07/2006	17 000
Swart Pierre	01/07/2006	17 000
Viljoen Johannes	01/07/2006	17 000
Du toit Pieter	01/07/2006	17 000
Malan M.P	01/07/2006	17 000
Oosthuizen Corrie	01/07/2006	17 000
Mani Koahela	01/07/2009	17 000
		231 000

Notes to the Financial Statements

Figures in Rand	2015	2014

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 26 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.

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.

Notes to the Financial Statements

Figures in Rand	2015	2014

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 impaired receivables are mostly due from customers defaulting on service costs levied by the entity.

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 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	28 867 259	-	-	-
Gross finance lease	1 448 725	1 345 635	414 666	-

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	24 396 819	-	-	-
Gross finance lease obligation	616 299	616 299	513 583	-

Figures in Rand	2015	2014

28. Risk management (continued)

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:

Financial instrument	2015	2014
ABSA Bank - Cheque account	769 756	2 591 555
ABSA Bank - Call account	-	675 362
ABSA Bank - Fixed deposit	1 731 635	20 000 000
ABSA Bank - Fixed deposit	198 531	327 646
First National Bank - Fixed deposit	3 816 442	3 604 912
Receivables from non-exchange transactions	1 960 600	1 243 464
VAT receivables	2 520 686	4 928 117
Receivables from non-exchange transaction - RSC Levies	-	7 212

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 2015 and 2014, the municipality's borrowings and investments at variable rates were denominated in the Rand.

Notes to the Financial Statements

Figures in Rand	2015	2014

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 2015, the municipality incurred a net loss of (R23 121 914) and the municipality's total liabilities exceed its assets by (R13 022 741)

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

1. Podbielskie Mhlambi Attorneys - R15,049,155 legal fees payable, for services rendered on RSC Levy dispute. The case has been settled with the financial assistance from the Department of Cooperative Governance and Traditional Affairs (CoGTA) in the current year. Management has now requested financial assistance from both Office of the Premier and CoGTA to settle the debt owed to the previous attorneys that represented TMDM Council, Podbielskie Mhlambi Attorneys.

2. Compensation commissioner - R1,849,282 for assessment period 2008 to 2010, management has agreed on a payment plan with Department of Labour over a period of 6 months, starting July 2015, the budgetary provision has been made in the 2015/16 year to settle the outstanding balance.

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

Unauthorised expenditure identified in the current year - operating	2 659 243	-

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: Mayco and Council

32. Fruitless and wasteful expenditure

Opening balance	1 847 548	1 323 279
Fruitless and wasteful expenditure - current year	-	308 509
Fruitless and wasteful expenditure - prior year identified in the current year	-	215 760
Less: Fruitless expenditure written-off as irrecoverable	(1 847 548)	-
	-	**1 847 548**

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.

Municipal Public Account Committee convene to analyse fruitless and wasteful expenditure incurred, upon the recommendations provided by the committee to council, a council resloution was passed on 05 August 2015 writting off fruitless and wasteful expenditure as irricoverable as disclosed above.

33. Irregular expenditure

Opening balance	43 318 206	46 092 973
Incorrect classification of irregular expenditure - prior periods	-	(2 774 767)
Less: Irregular expenditure written-off as irrecoverable	(43 318 206)	-
	-	**43 318 206**

Notes to the Financial Statements

Figures in Rand	2015	2014

33. Irregular expenditure (continued)

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

Municipal Public Account Committee convene to analyse irregular expenditure incurred, upon the reccomodations provided by the commitee to council, a council resloution was passed on 05 August 2015 writting off irregular expenditure as irricoverable as disclosed above.

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	500 000	450 000
Amount paid - current year	(500 000)	(450 000)
	-	-

Material losses through criminal conduct

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

Audit fees

Opening balance	-	109 570
Current year subscription / fee	2 726 601	2 709 150
Amount paid - current year	(2 632 514)	(2 818 720)
	94 087	-

PAYE and UIF

Opening balance	684 142	620 355
Current year subscription / fee	9 869 861	8 652 459
Amount paid - current year	(9 729 741)	(8 588 672)
	824 262	**684 142**

Pension and Medical Aid Deductions

Current year subscription / fee	8 965 088	6 398 384
Amount paid - current year	(8 965 088)	(6 398 384)
	-	-

VAT

VAT receivable	2 520 686	5 006 783

Notes to the Financial Statements

Figures in Rand	2015	2014

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Details of deviation	**Number of deviation**	
Urgent	20	2 659 785
Sole supplier	5	450 500
Others (includes: legal service, advertisement and training)	116	4 567 509
		7 677 794

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

Property, Plant and Equipment

During the financial year, management reviewed the remaining useful lives of all municipal assets. The review necessitated the adjustment and restatement of useful live to 41 assets (3 motor vehicles, 38 office equipment items) the useful lives had to be restated retrospectively, i.e. increased, as they had been fully depreciated whilst still being in use. The effect of the retrospective restatement was a decrease in the 2014/2015 opening accumulated depreciation (2013/2014 closing accumulated depreciation) amounting to R 312 855 (motor vehicles: R 158 084, office equipment: R 154 771)

Intangible assets

During the current financial year, management reviewed the remaining useful life of the financial management module (intangible asset) as it is still in use but has been amortized fully. The useful life was restated retrospectively, i.e. increased, to ensure that there will be annual amortization until the system is replaced in a couple of years' time . The effect of the retrospective restatement was a decrease in the 2014/2015 opening accumulated amortization (2013/2014 closing accumulated amortization) amounting to R 734 573.

Payables from exchange transactions

The prior period error was due to the following:

Salary creditors, amounting to R 33,360, which were paid in 2012/13 were incorrectly left in the creditors listing for the 2013/14 annual financial. The impact of this reduces the balance of payables from exchange transaction.

The rentetion creditor, amounting to R 480 518, was outstanding from 2009/10 financial year, was incorrectly removed from creditors listing in the 2010/11 financial statement. The impact of this increases the balance of payables from exchange transaction for the year ended 2014.

It was also noted that the payment relating to outstanding PAYE/SDL for the assessment period 09/2004 amounting to R548,062.79 was incorrectly posted as part of VAT receivables for the year ended 30 June 2015. This resulted in a VAT receivables being overstated and accumulated surplus being understated with the same amount.

VAT Receivable

During the year it was noted that VAT amounting to R78,665.50 had erroneously been excluded when the raising of Creditors for the year ended 30 June 2014 even though the municipality were in possesion of valid tax invoices. This resulted in a cut off error of the expense when paid in the subsequent year, and caused the VAT receivable to be understated and the General expenditure to be overstated at the end of 2014.

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

Notes to the Financial Statements

Figures in Rand	2015	2014

36. Prior period errors (continued)

Statment of financial position		
Increase in payables from exchange transactions	-	(995 221)
Increase in property, plant and equipment	-	312 856
Increase in intangible assets	-	734 573
Decrease in Accumulated surplus	-	125 780
Decrease in VAT receivables	-	78 666
	-	**256 654**

Statement of Financial Performance		
Decrease in depreciation and amortization expense	-	(177 988)
Decrease in general expense	-	(15 991)
Decrease in grants and subsidies	-	(62 304)
Decrease in repairs and maintenance	-	(371)
	-	**(256 654)**

37. Contracted services

Review of Strategic Objective	484 000	500 000
Contracted Financial Support	917 963	802 830
Performance Management System	1 273 949	906 006
	2 675 912	**2 208 836**

38. Grants and subsidies paid

Other subsidies		
Local government assistance - Own funding	18 492 134	17 577 985
COGTA Provincial Infrustucture Grant	-	1 727 735
	18 492 134	**19 305 720**

39. Revenue

Sundry income	1 572 901	248 054
Interest received - investment	2 069 979	2 473 286
Government grants & subsidies	108 834 496	86 206 986
	112 477 376	**88 928 326**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sundry income	1 572 901	248 054
Interest received - investment	2 069 979	2 473 286
	3 642 880	**2 721 340**

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

Transfer revenue		
Government grants & subsidies	108 834 496	86 206 986

Notes to the Financial Statements

Figures in Rand	2015	2014

40. Budget differences

Material differences between budget and actual amounts

Notes to the Financial Statements

40. Budget differences (continued)

40.1. Sundry income - the actual revenue over the final budget indicates a variation decline of 94%, these was due to inccoret treatment of surplus cash errorneously included in the budget.

40.2. Interest received on investment - the actual revenue over the final budget indicates a variation decrease of 19%, these was due to intererst flactuation.

40.3. Remuneration of councillors – the actual expenditure over the final budget indicated a variation increase of 11%, this was due to the late approval of the of Remuneration of Public Office Bearers Act, which was only approved after the budget adjustment approval.

40.4. Depreciation and amortisation – the actual expenditure over the final budget indicates a variation increase of 60%, these was as the results of additional assets bought during the current year, the timing of purchases which was earlier than the planned date these has led to an increase in the depreciation value.

40.5. Debt impairement - the actual reversal of debt impairement over the final budget indicate a variation increase of 100%, these was due to the settlement agreement which was concluded with the RSC Levy payers and this was not anticipated, hence, no budget provision.

40.6. Finance charges - the actual expenditure over the final budget indicate a variation increase of 431%, these was as the results of misallocation of finance charges which was allocated under general expenditure

40.7. Repairs and maintenance – the actual expenditure over the final budget indicate a variation increase of 14%, these was due to repairs and maintenance on motor vehicles that did not have maintenance plan nor warranty and repairs on the building.

40.8. Contracted service – the actual contracted service expenditure over the final budget indicates a variation increase of 51%, these was as the results of misallocation of contracted service in relation to PMS Support which was allocated under general expenditure

40.9. Transfers and subsidies - the actual expenditure on transfer and subsidies over the final budget indicate a variation increase of 17%, these was due to variation orders approved on the projects in terms of General Condition of Contract.

40.10. Receivables from non-exchange transactions – the actual receivables from non-exchange transactions over the final budget indicates a variation increase of 72%, these was due to Service SETA Grant outstanding at year end, overpayment of councillors and other unforseen debtors

40.11. VAT Receivables – the actual VAT receivable over the final budget indicates a variation increase of 100% these was due to the fact that VAT refunds for the periods February 2015 up to June 2015 are still outstanding from SARS.

40.12. Cash and cash equivalents – the actual cash and cash equivalents over the final budget indicates a variation decrease of 151%, this was due to withdrawals on investments towards the end of the financial year.

40.13. Property, plant and equipment – the actual property, plant and equipment over the final budget indicates a variation increase of 66%, this was due to procurement of assets bought during the current year, the timing of purchases which was earlier than the planned date these has led to an increase in the property, plant and equipment value.

40.14. Intangible assets – the actual intangible assets over the final budget indicates a variation increase of 635%, this was due to procurement of IEMAS (SCM Management System) bought during the current year, the timing of purchases which was earlier than the planned date these has led to an increase in the intangible assets value.

40.15. Finance lease obligation (current and non-current) – the actual finance lease obligation over the final budget indicates a variation decrease of 96% on current and 59% on non-current, this was due to incorrect budget projection on lease.

40.16. Payables from exchange transactions – the actual payables from exchange transactions over the final budget indicates a variation increase of 46%, this was due to outstanding invoice on construction contract and IEMAS system

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

Notes to the Financial Statements

40. Budget differences (continued)

40.18. Employee benefit obligation – the actual employee benefit obligation over the final budget indicates a variation increase of 12%, this was due to to incorrect budget estimate.

41. Non-compliance with the MFMA

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

Municipal Finance Management Act 56 of 2003, section 52(d)
The quarterly report for implementation of the budget and the financial state of affairs of the municipality for Third Quarter (ending 31 March 2015) was not submitted within 30 days.

Municipal Finance Management Act (MFMA) 56 of 2003, section 53(1)(c)(ii)
The municipality's service delivery and budget implementation plan (SDBIP) was not approved by the Mayor within 28 days after the approval of the budget.

Municipal Finance Management Act 56 of 2003, section 65(1)(e)
That all money owing by the municipality was not always paid within 30 days of receiving the relevant invoice or statement.

Municipal Finance Management Act 56 of 2003, section 71(4)
The municipality did not submit statement to the provincial treasury in the format of a signed document for the period ending 30 June 2015.

Municipal Finance Management Act 56 of 2003, section 74
The municipality did not submit signed returns on their Conditional Grant spending for the period ending 30 June 2015.