Moqhaka Local Municipality
Annual financial statements
for the year ended 30 June 2013

General Information

Legal form of entity	Municipality (MFMA)
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community, mainly in the Moqhaka area.
Mayoral committee	
Executive Mayor	Mohapi, MJ
Speaker	Nakedi, ACWD
Chief Whip	Mareka, J
Members of Mayoral Committee	Colbert, DPC
	Koloi, MA
	Tau, DA
	Machobane, ML
	Mokotla, ME
	Moletsane, ER
	Mokodutlo, NP
	Makau, TL
	Thipane, MP
Grading of local authority	The Moqhaka Municipality is a grade 4 (High Capacity) Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
Accounting Officer	Mqwathi, MS
Chief Finance Officer (CFO)	Mokoena, MP (resigned on 28 March 2013)
Registered office	Municipal Offices Hill Street Kroonstad 9499
Business address	Municipal Offices Hill Street Kroonstad 9499
Postal address	PO Box 302 Kroonstad 9500
Bankers	ABSA Bank Limited: Kroonstad
Auditors	The Auditor General: Free State
Attorneys	Du Randt & Louw Majavu Incorporated Neumann van Rooyen Attorneys Podbielski Mhlambi Attorneys

General Information

Members of Council

Dalton, CM
Dire, AMS
Green, MM
Hattingh, JM
Kgang, LD
Kubheka, DM
Letsabo, MJ
Letsitsa, ME
Lithupa, MJ
Magadlela, ZS
Tumisi, TJ
Makoele, WL
Malokotsa, SV
Masuret, A
Mbono, MD
Mkhotheni, NW
Mkhwanazi, TM
Moeketsi, DA
Mofokeng, MJ
Mokoena, S
Monoto, MA
Notsi, EM
Ntsala, TM
Nzunga, DN
Pittaway, M
Rajuili, EV (resigned 03/10/2012)
Rooskrans, B
Seleke, LM
Selikoe, NM
Sethabela, MJ
Shahim, DM
Silevu, JS
Taje, FM
Thajane, MI
Mahasa M
Tladi, SB
Twapa, VPM
Vermeulen, M
Viljoen, AH
Willie, GV

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
EPWP	Extended Public Works Programme
DBSA	Development Bank of South Africa
IDP	Integrated Development Plan
DWA	Department of Water Affairs
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SCM	Supply Chain Management
MMC	Member of Mayoral Committee
COGTA	Cooperative Governance and Traditional Affairs

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

I certify that the salaries, allowances and benefits of councillors as disclosed in note 34 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 6 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:

MS Mqwathi
Municipal Manager
Hons: Business Administration

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2013.

1. Review of activities

Main business and operations

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

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

Net deficit of the municipality was R 68,248,473 (2012: deficit R 227,574,592).

2. Going concern

We draw attention to the fact that at 30 June 2013, the municipality had accumulated surplus of R 2,326,984,492 and that the municipality's total assets exceed its liabilities by R 2,326,984,492.

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

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

The entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act of 2012.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

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

6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year were as follows:

The Annual Financial Statements of the Moqhaka Local Municipality this year reflects a significant increase in the value of its fixed assets. This was brought about by the conclusion of the final phase by the municipality to compile a GRAP compliant Fixed Asset Register (FAR).

I am of the opinion that the FAR will provide a sound foundation to account for all assets of the Moqhaka Local Municipality as prescribed by section 63 of the Municipal Finance Management Act of 2003, (Act No. 56 of 2003).

7. Accounting Officer

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

Name	Nationality
Mqwathi, MS	South African

Moqhaka Local Municipality
(Municipal demarcation code FS201)
Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	Restated 2012
Assets			
Current Assets			
Cash and cash equivalents	3	9,731,284	15,746,966
Receivables from exchange transactions	4	64,412,868	50,261,866
Inventories	5	4,872,068	4,781,881
Investments	6	-	57,057
Receivables from non-exchange transactions	7	13,829,257	12,260,775
VAT receivable	8	19,349,507	6,601,377
		112,194,984	**89,709,922**
Non-Current Assets			
Investment property	11	126,228,505	126,228,506
Property, plant and equipment	13	2,340,818,178	2,536,211,243
Intangible assets	9	765,442	1,103,583
Heritage assets	10	885,650	885,650
Investments	6	214,781	259,288
		2,468,912,556	**2,664,688,270**
Total Assets		**2,581,107,540**	**2,754,398,192**
Liabilities			
Current Liabilities			
Consumer deposits	18	8,821,409	8,315,020
Finance lease obligation	19	313,960	3,409,740
Long-term Loans	20	1,508,475	25,756,839
Payables from exchange transactions	21	147,534,929	158,151,147
Unspent conditional grants and receipts	22	2,899,364	7,322,263
		161,078,137	**202,955,009**
Non-Current Liabilities			
Long-term Loans	20	27,038,976	2,698,405
Finance lease obligation	19	66,030	400,691
Retirement benefit obligation	16	48,224,000	42,060,000
Provisions	23	17,715,905	16,226,824
		93,044,911	**61,385,920**
Total Liabilities		**254,123,048**	**264,340,929**
Net Assets		**2,326,984,492**	**2,490,057,263**
Net Assets			
Accumulated surplus		2,326,984,492	2,490,057,263

Statement of Financial Performance

Figures in Rand	Note(s)	2013	Restated 2012
Revenue			
Service charges	27	300,635,370	239,513,102
Rental income	31	4,190,682	4,522,527
Fees earned	29	848,038	705,292
Discount received	29	144	12,248
Other income	30	12,296,163	5,270,636
Interest received - investment	28	5,785,853	5,706,213
Dividends received	28	8,109	14,258
Property rates	26	42,025,820	38,800,214
Government grants & subsidies	25	228,899,884	198,538,424
Fines	29	974,809	893,535
Total revenue (Note 24)		**595,664,872**	**493,976,449**
Expenditure			
Employee related cost	33	(154,058,086)	(150,573,783)
Remuneration of councillors	34	(14,837,152)	(14,128,359)
Depreciation and amortisation	37	(250,020,590)	(252,050,420)
Finance costs	38	(10,417,192)	(17,582,292)
Debt impairment	35	48,109,163	(19,101,893)
Repairs and maintenance		(32,776,696)	(39,465,345)
Bulk purchases	42	(164,985,789)	(142,221,632)
Contracted services	40	(10,038,497)	(8,465,316)
Grants and subsidies paid	41	(3,000,476)	(10,339,969)
General expenses	32	(67,502,415)	(62,956,578)
Total expenditure		**(659,527,730)**	**(716,885,587)**
Operating deficit		**(63,862,858)**	**(222,909,138)**
Loss on disposal of assets	57	(880,348)	(82,483)
Fair value Gains/(losses) on Assets	36	17,733	2,783,029
Actuarial Gains/(losses) on employees benefit obligation	58	(3,523,000)	(7,366,000)
		(4,385,615)	**(4,665,454)**
Surplus/(Deficit) for the year		**(68,248,473)**	**(227,574,592)**
Owners of the controlling entity		(68,248,473)	(227,574,592)

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,027,746,060	1,027,746,060
Adjustments		
Correction of prior period error (Note 45)	(62,548,370)	(62,548,370)
Balance at 01 July 2011 as restated	**965,197,690**	**965,197,690**
Changes in net assets		
Adjustments against Accumulated Surplus	1,752,434,165	1,752,434,165
Net income (losses) recognised directly in net assets	1,752,434,165	1,752,434,165
Surplus/(Deficit)t for the period as restated	(227,574,592)	(227,574,592)
Total recognised income and expenses for the period	1,524,859,573	1,524,859,573
Total changes	1,524,859,573	1,524,859,573
Balance at 01 July 2012 as restated	**2,490,057,221**	**2,490,057,221**
Changes in net assets		
Adjustments against Accumulated Surplus	(94,824,256)	(94,824,256)
Net income (losses) recognised directly in net assets	(94,824,256)	(94,824,256)
Surplus/(Deficit) for the period	(68,248,473)	(68,248,473)
Total recognised income and expenses for the year	(163,072,729)	(163,072,729)
Total changes	(163,072,729)	(163,072,729)
Balance at 30 June 2013	**2,326,984,492**	**2,326,984,492**

National Treasury GRAP implementation guide for municipalities topic 6.3 indicates that internal funds and reserves, except for the housing development fund, should not be disclosed on the face of the statement of changes in net assets. These funds form part of accumulated surplus/deficit and should be disclosed only in a note. GRAP does however not prohibit a municipality to create additional reserves as long as these reserves are not created by bypassing the statement of financial performance. Transfers between reserves within net assets are allowed. The template does therefore include these reserves as part of the face of the statement of changes in net assets. "Fund accounting" in which the statement of financial performance is bypassed, should however not be performed.

Cash Flow Statement

Figures in Rand	Note(s)	2013	Restated 2012
Cash flows from operating activities			
Receipts			
Cash receipts from customers		318,612,386	289,832,270
Grants		224,476,984	201,588,426
Interest income		5,785,853	5,706,213
Dividends received		8,109	14,258
		548,883,332	497,141,167
Payments			
Employee costs		(166,546,071)	(154,950,529)
Suppliers		(304,138,685)	(166,454,520)
Finance costs		(6,149,191)	(13,909,865)
		(476,833,947)	(335,314,914)
Net cash flows from operating activities	43	**72,049,385**	**161,826,253**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(74,656,874)	(48,956,033)
Proceeds from sale of property, plant and equipment	13	(1)	192,923
Purchase of investment property	11	-	(99,948,000)
Proceeds from sale of investment property	11	-	3,605,000
Purchase of intangible assets	9	-	(111,750)
Increase / (decrease) of financial assets		101,564	99,296
Net cash flows from investing activities		**(74,555,311)**	**(145,118,564)**
Cash flows from financing activities			
(Decrease) / increase of other financial liabilities		92,207	2,211,712
(Decrease) / increase of finance lease		(3,601,963)	(7,703,897)
Net cash flows from financing activities		**(3,509,756)**	**(5,492,185)**
Net increase in cash and cash equivalents		**(6,015,682)**	**11,215,504**
Cash and cash equivalents at the beginning of the year		15,746,966	4,531,462
Cash and cash equivalents at the end of the year	3	**9,731,284**	**15,746,966**

Moqhaka Local Municipality
(Municipal demarcation code FS201)
Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	288,760,126	20,970,561	**309,730,687**	300,635,370	**(9,095,317)**	Appendix E1
Rental income	4,571,000	473,598	**5,044,598**	4,190,682	**(853,916)**	Appendix E1
Fees earned	706,000	(12,101)	**693,899**	848,038	**154,139**	Appendix E1
Discount received	15,000	(15,000)	**-**	144	**144**	Appendix E1
Other income	4,034,500	369,360	**4,403,860**	12,296,163	**7,892,303**	Appendix E1
Interest received - investment	5,500,000	-	**5,500,000**	5,785,853	**285,853**	Appendix E1
Dividends received	17,000	(4,444)	**12,556**	8,109	**(4,447)**	Appendix E1
Total revenue from exchange transactions	**303,603,626**	**21,781,974**	**325,385,600**	**323,764,359**	**(1,621,241)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	39,935,500	2,803,000	**42,738,500**	42,025,820	**(712,680)**	Appendix E1
Government grants & subsidies	167,953,000	249,092	**168,202,092**	228,899,884	**60,697,792**	Appendix E1
Transfer revenue						
Fines	787,500	304,098	**1,091,598**	974,809	**(116,789)**	Appendix E1
Total revenue from non-exchange transactions	**208,676,000**	**3,356,190**	**212,032,190**	**271,900,513**	**59,868,323**	
Total revenue	**512,279,626**	**25,138,164**	**537,417,790**	**595,664,872**	**58,247,082**	
Expenditure						
Personnel	(170,578,227)	1,697,794	**(168,880,433)**	(154,058,086)	**14,822,347**	Appendix E1
Remuneration of councillors	(14,954,919)	-	**(14,954,919)**	(14,837,152)	**117,767**	Appendix E1
Depreciation and amortisation	(27,330,000)	-	**(27,330,000)**	(250,020,590)	**(222,690,590)**	Appendix E1
Finance costs	(10,660,708)	-	**(10,660,708)**	(10,417,192)	**243,516**	Appendix E1
Debt impairment	(35,206,000)	(6,347,313)	**(41,553,313)**	48,109,163	**89,662,476**	Appendix E1
Repairs and maintenance	(24,873,680)	(2,836,970)	**(27,710,650)**	(32,776,696)	**(5,066,046)**	Appendix E1
Bulk purchases	(161,091,358)	(8,642)	**(161,100,000)**	(164,985,789)	**(3,885,789)**	Appendix E1
Contracted Services	(10,923,970)	485,000	**(10,438,970)**	(10,038,497)	**400,473**	Appendix E1
Grants and subsidies paid	(4,659,000)	-	**(4,659,000)**	(3,000,476)	**1,658,524**	Appendix E1
General Expenses	(49,466,206)	(26,311,080)	**(75,777,286)**	(67,502,415)	**8,274,871**	Appendix E1
Total expenditure	**(509,744,068)**	**(33,321,211)**	**(543,065,279)**	**(659,527,730)**	**(116,462,451)**	
Operating deficit	**2,535,558**	**(8,183,047)**	**(5,647,489)**	**(63,862,858)**	**(58,215,369)**	
Loss on disposal of assets and liabilities	-	-	**-**	(880,348)	**(880,348)**	Appendix E1
Fair value Gains/(losses) on Investments	-	(11,350)	**(11,350)**	17,733	**29,083**	Appendix E1
Loss on non-current assets held for sale or disposal groups	-	-	**-**	(3,523,000)	**(3,523,000)**	Appendix E1
	-	**(11,350)**	**(11,350)**	**(4,385,615)**	**(4,374,265)**	
Deficit before taxation	**2,535,558**	**(8,194,397)**	**(5,658,839)**	**(68,248,473)**	**(62,589,634)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**2,535,558**	**(8,194,397)**	**(5,658,839)**	**(68,248,473)**	**(62,589,634)**	

Accounting Policies

1. Statement of compliance

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

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

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand, and have been rounded off to the nearest Rand.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the period in which the estimate are revised and in any future period affected. Significant judgements include:

Trade receivables / Held to maturity investments and / or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance in the year in which it arose.

Fair value estimation

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

1.2 Significant judgements and sources of estimation uncertainty (continued)

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 23 - Provisions.

Useful lives and residual values

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate and deferred payment terms

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

1.3 Investment property

Initial Recognition

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for

Accounting Policies

1.3 Investment property (continued)

- administrative purposes, or
- sale in the ordinary course of operations.

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

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

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

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

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.4 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, 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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

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 are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

The useful lives of items of property, plant and equipment have been assessed as follows, for the current and comparative periods:

Item	**Average useful life**
Land	Indefinite
Buildings	7 - 80 years
Plant and machinery	2 - 15 years
Furniture and fittings	2 - 10 years
Motor vehicles	2 - 20 years
Office equipment	3 - 7 years
IT equipment	3 - 7 years
Infrastructure	
• Park infrastructure assets	7 - 80 years
Community assets	
• Land	Indefinite
• Buildings	7 - 80 years
Electricity	7 - 80 years
Park infrastructure	7 - 80 years
Quarries	15 - 20 years
Landfill sites	10 -15 years
Finance leases - 3G cards	3 years
Finance leases - Cellphones	2 years
Solid waste	15 - 80 years

Accounting Policies

1.4 Property, plant and equipment (continued)

Wastewater network	7 - 80 years
Portable water network	8 - 100 years
Storm water	40 - 60 years
Heritage	Indefinite
Roads, bridges and roadside structures	8 - 80 years
Railway	60 - 100 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, at the end of each period.

Items of municipality 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 municipality.

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Accounting Policies

1.6 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Derecognition

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

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

1.7 Intangible assets

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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.

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 - financial system	20 years
Computer software - operating system	3 - 5 years

Intangible assets are derecognised:

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

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

1.8 Financial instruments

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

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

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

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

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

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

1.8 Financial instruments (continued)

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.

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.

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Financial instruments measured at fair value
- Financial instruments measured at amortised cost
- Financial instruments measured at cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

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

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

Financial assets measured at amortised cost:

Accounting Policies

1.8 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.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it 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 entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

1.8 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.

Dividends or similar distributions 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.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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.

1.9 Tax

Value Added Tax (VAT)

The entity accounts for VAT on the cash basis. The entity is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the Value Added Tax Act, (Act 89 of 1991) 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 entity accounts for VAT on a monthly basis.

1.10 Leases

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

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.

1.10 Leases (continued)

Operating leases - lessor

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

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

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

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

Operating leases - lessee

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

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

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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

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

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

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

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

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

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

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

1.12 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).

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

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

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

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

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

Recoverable amount of an asset or a cash-generating unit is the higher 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:

1.13 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.

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.

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

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

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

Defined contribution plans

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

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

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

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

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

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

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

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

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

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

Post retirement obligations

The entity provides post-retirement health care benefits and gratuities upon retirement to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. Independent qualified actuaries carry out valuations of these obligations. The benefits are charged to income as incurred throughout the year.

Accounting Policies

1.14 Employee benefits (continued)

Multi employer plans

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

1.15 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.

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 in surplus or deficit.

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

Accounting Policies

1.15 Provisions and contingencies (continued)

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 44.

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.

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.

1.16 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.

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

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

Interest and dividends

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

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

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

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

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

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

1.17 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.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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.

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, a 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.

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.

Assessment Rates

Revenue from rates, including collection charges and penalty interest, shall be recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- there has been compliance with the relevant legal requirements.
- Changes to property values during a reporting period, which are referred to as “interims”, are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

1.17 Revenue from non-exchange transactions (continued)

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Revenue from the issuing of fines shall be recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- the amount of the revenue can be measured reliably.
- There are two types of fines: spot fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.
- In respect of summonses the public prosecutor can decide whether to waive the made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.18 Investment income

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

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.20 Comparative figures

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

Budget information, in accordance with GRAP 1 and based on IPSAS 24, has been provided in Annexure E(1) to these financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed in note 46.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practical, and the prior period comparatives are restated accordingly. The nature and reason for the reclassification is disclosed in note 46.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practical, and the prior year comparatives are restated accordingly. The nature and reason for the reclassification is disclosed in note 12.

Accounting Policies

1.21 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, unless it meets the definition and recognition criteria of an asset. 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.

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

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.

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

1.24 Offsetting

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

1.25 Investments

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

Accounting Policies

1.26 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.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.27 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.

1.28 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.

Accounting Policies

1.28 Related parties (continued)

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.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.29 Contractual Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Contractual commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.30 Subsequent Events

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.31 GRAP 24 Presentation of Budget Information

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

General purpose financial reporting by municipality shall provide

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives. information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 01/07/2012 to 30/06/2013.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	The standard will not have a material impact on the annual financial statements.
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	Additional disclosure is to be included in the financial statements. Please refer to the Statement of Comparison of Budget and Actual Amounts for disclosure.
• GRAP 103: Heritage Assets	01 April 2012	Due to the implementation of GRAP 103, certain heritage assets will be reclassified to other assets (primarily Property, Plant and Equipment) as these assets no longer fit the definition of heritage assets
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	Significant impact due to valuation of assets.
• GRAP 26: Impairment of cash-generating assets	01 April 2012	Significant impact due to valuation of assets.
• GRAP 104: Financial Instruments	01 April 2012	There will be significant changes. This main changes relates to the classification of the different categories of financial instruments and the changes in provision for impairment.

2.2 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 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.

2. New standards and interpretations (continued)

• GRAP 25: Employee benefits	01 April 2013	The most significant impact of the standard relates to actuarial gains and losses that may now only be recognised in full in the year that it arises (no more options).
• GRAP 105: Transfers of functions between entities under common control		It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 106: Transfers of functions between entities not under common control		It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 107: Mergers		It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 20: Related parties		It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP 11: Consolidation – Special purpose entities		It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures		
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.

2. New standards and interpretations (continued)

• GRAP 12 (as revised 2012): Inventories	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 13 (as revised 2012): Leases	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP16: Intangible assets website costs	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	11,920	11,920
Bank balances	1,558,414	6,596,767
Short-term deposits	8,160,950	9,138,279
	9,731,284	**15,746,966**

At year end the overdraft on the FNB account amounted to R 0 (2012: R 92).

The fair value of the cash and cash equivalents approximate their carrying values.

Cash and cash equivalents pledged as collateral

	2013	2012
Local guarantees issued to Department of Mining and Energy This cession is linked to ABSA fixed deposit account number: 205 824 7882	59,912	57,057
Local guarantees issued to Department of Mining and Energy - top up! This cession is linked to ABSA notice deposit account number: 6301219190	7,800	7,800
FNB Guarantee This is guarantee is held by the municipality at FNB Bank, which is in favour of ESKOM	-	11,250
	67,712	**76,107**

The municipality had the following bank accounts

Bank, description and account number	**Bank statement balances**		**Cash book balances**	
	30 June 2013	**30 June 2012**	**30 June 2013**	**30 June 2012**
ABSA bank - cheque account account number: 40 532 748 26	1,008,726	6,596,859	1,376,377	6,596,859
FNB bank - cheque account account number: 62 028 349 349	-	(92)	-	(92)
ABSA Bank - Fixed deposit Account number: 2048435948	48,861	46,239	48,861	46,239
ABSA Bank - Fixed deposit Account number: 2045714533	16,001	16,001	16,001	16,001
ABSA Bank - Fixed deposit Account number: 2058247882	59,912	57,057	59,912	57,057
ABSA Bank - Notice deposit Account number: 63001219190	39,380	39,023	39,380	39,023
ABSA Bank - Savings account Account number: 9131901443	7,876,722	8,969,226	7,876,722	8,969,226
ABSA Bank - Savings account Account number: 9144149383	3,608	3,601	3,608	3,601
ABSA Bank - Savings account Account number: 9182653631	2,486	2,483	2,486	2,483
ABSA Bank - Savings account Account number: 9232476515	91,578	90,216	91,578	90,216
Total	**9,147,274**	**15,820,613**	**9,514,925**	**15,820,613**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Receivables from exchange transactions

Gross balances		
Electricity	29,462,219	30,956,418
Water	104,482,426	98,158,690
Interest on Debtors	32,975,926	49,206,581
Sewerage	25,455,185	28,328,457
Refuse	19,316,226	24,488,064
Other Services	18,305,234	22,262,554
Deposits	1,198,488	1,766,239
	231,195,704	**255,167,003**

* Other Service comprise of; Rental (including leases), Fire services and advertising services.

Less: Impairment		
Electricity	(4,844,752)	(8,158,242)
Water	(91,165,467)	(76,968,819)
Interest on debtors	(24,258,860)	(42,022,271)
Sewerage	(20,680,091)	(22,209,860)
Refuse	(15,783,207)	(20,037,149)
Other Services	(8,963,068)	(33,910,328)
Deposits	(1,087,391)	(1,598,468)
	(166,782,836)	**(204,905,137)**

Net carrying amount		
Electricity	24,617,467	22,798,176
Water	13,316,959	21,189,871
Interest on Debtors	8,717,066	7,184,310
Refuse	3,533,019	4,450,915
Sewerage	4,775,094	6,118,597
Other Services	9,342,166	(11,647,774)
Deposits	111,097	167,771
	64,412,868	**50,261,866**

Electricity		
Current (0 -30 days)	12,371,755	8,429,718
31 - 60 days	718,496	422,914
61 - 90 days	310,300	233,112
90 + days	11,216,916	13,712,432
	24,617,467	**22,798,176**

Water		
Current (0 -30 days)	3,322,821	2,387,341
31 - 60 days	497,720	628,725
61 - 90 days	404,395	554,688
90 + days	9,092,023	17,619,117
	13,316,959	**21,189,871**

Interest on Debtors		
Current (0 -30 days)	117,902	70,538
31 - 60 days	107,145	68,281
61 - 90 days	104,817	66,488
90 + days	8,387,202	6,979,003
	8,717,066	**7,184,310**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Receivables from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	273,723	270,955
31 - 60 days	130,000	178,410
61 - 90 days	110,599	164,312
90 + days	4,260,772	5,504,920
	4,775,094	**6,118,597**

Refuse		
Current (0 -30 days)	147,771	142,428
31 - 60 days	64,783	91,433
61 - 90 days	55,243	84,152
90 + days	3,265,222	4,132,902
	3,533,019	**4,450,915**

Sundry Services		
Current (0 -30 days)	155,529	(113,805)
31 - 60 days	39,238	(141,631)
61 - 90 days	43,607	(37,901)
90 + days	9,103,792	(11,354,437)
	9,342,166	**(11,647,774)**

Deposits		
Current (0 -30 days)	6,794	6,197
31 - 60 days	989	1,509
61 - 90 days	2,012	2,867
90 + days	101,302	157,198
	111,097	**167,771**

Figures in Rand	2013	2012

4. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Residential		
Current (0 -30 days)	12,610,850	7,343,254
31 - 60 days	5,984,496	5,306,203
61 - 90 days	4,981,132	4,675,618
90 + days	187,933,132	221,003,834
	211,509,610	238,328,909
Less: Impairment	(162,052,729)	(196,032,050)
	49,456,881	**42,296,859**

Industrial / commercial		
Current (0 -30 days)	8,526,230	5,728,556
31 - 60 days	1,400,819	281,216
61 - 90 days	780,537	152,479
90 + days	20,089,460	2,545,090
	30,797,046	8,707,341
Less: Impairment	(4,713,054)	(6,192,457)
	26,083,992	**2,514,884**

National and provincial government		
Current (0 -30 days)	4,264,350	2,688,584
31 - 60 days	211,724	157,637
61 - 90 days	135,080	117,644
90 + days	1,089,954	821,276
	5,701,108	3,785,141
Less: Impairment	-	-
	5,701,108	**3,785,141**

Total		
Current (0 -30 days)	25,401,430	19,887,598
31 - 60 days	7,592,483	5,745,056
61 - 90 days	5,896,749	5,164,149
90 + days	192,305,042	224,370,200
	231,195,704	255,167,003
Less: Impairment	(166,782,836)	(204,905,137)
	64,412,868	**50,261,866**

Reconciliation of impairment		
Balance at beginning of the year	(204,905,137)	(206,400,287)
Contributions to allowance	55,225,382	19,418,318
VAT amount included in provision	(17,103,081)	(17,923,168)
	(166,782,836)	**(204,905,137)**

Receivables with arrangements

Included in the above receivables from exchange transactions, is a number of consumers with whom arrangements have been made to pay the debt over a longer period. The information from the municipality system was not readily available to calculate the precise figures for the total amount outstanding and also to calculate the timing of the repayments from the consumers. The estimated receivables with arrangements, after impairment, is R 2 million (2012: R 0.5 million).

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Inventories

Consumables - at cost	4,689,117	4,553,451
Water inventory	182,951	228,430
	4,872,068	**4,781,881**

None of the inventories held by the municipality were measured at fair value less cost to sell.

Inventory recognised as an expense amounted to R 9,513,725 in the current year (2012: R 3,983,879).

Inventory held by the municipality were adjusted by R 28,357 in the current year (2012: adjusted by R 313,555).

No Inventories have been pledged as collateral for Liabilities of the municipality.

6. Investments

Residual interest at cost		
Unlisted shares	214,781	197,048
At amortised cost		
Short term deposits	-	119,297
Total other financial assets	**214,781**	**316,345**
Non-current assets		
Unlisted shares	214,781	197,048
Short term deposits	-	62,240
	214,781	**259,288**
Current assets		
Short term deposits	-	57,057

7. Receivables from non-exchange transactions

Political Parties	-	497,996
Assessment Rates	13,289,708	9,090,139
Sundry receivables	539,549	147,022
FS Human Settlements	-	2,525,618
	13,829,257	**12,260,775**

Political Parties

This relates to expenditure incurred by different political parties, but paid for by the municipality. However, the Public Protector instructed the Council to recover the money from the various political parties. This outstanding balance for political parties at year end amounted to R504 486 (including interest charges) which is included in receivables under other debtors.

Sundry receivables (consists of):

- ESKOM Deposits
- Fuel Deposit (Dakota Motors)

The fair value other receivables approximate their carrying values.

8. VAT receivable

VAT	19,349,507	6,601,377

8. VAT receivable (continued)

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

9. Intangible assets

	2013			Restated 2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	3,927,817	(3,162,375)	765,442	3,927,818	(2,824,235)	1,103,583

Reconciliation of intangible assets - 2013

	Opening balance	**Amortisation**	**Total**
Computer software	1,103,583	(338,141)	765,442

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	1,424,574	111,750	(432,741)	1,103,583

Other information

There were no intangible assets that were assessed as having an indefinite useful live.

There are no intangible assets who's title is restricted or pledged as security for municipality's liabilities.

There are no contractual commitments for the acquisition of intangible assets.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

10. Heritage assets

	2013			2012		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage Assets	885,650	-	885,650	885,650	-	885,650

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 2 of the GRAP Reporting Framework, as disclosed in note , certain heritage asset with a carrying value of R - (2012: R -) was recognised at provisional amounts. Carrying amounts of heritage asset carried at provisional amounts are as follows:

Due to initial adoption of GRAP 103

Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103, is as follows:

Provisional amounts retrospectively adjusted during the year, are as follows (refer to note for effect on the annual financial statements:

The date at which full compliance with GRAP 103 is expected, is 30 June 2015.

Deemed costs

	2013	2012
Aggregate of items valued using deemed cost	868,106	868,106

Deemed cost was determined using depreciated replacement cost..

11. Investment property

	2013			Restated 2012		
	Cost / Valuation	**Accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment**	**Carrying value**
Investment property	126,228,505	-	126,228,505	126,228,506	-	126,228,506

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	126,228,505	126,228,505

Reconciliation of investment property - 2012

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Other changes, movements**	**Fair value adjustments**	**Total**
Investment property	18,686,169	99,948,000	(3,605,000)	(791,003)	9,204,474	2,785,865	126,228,505

Pledged as security

There are currently no restrictions on Investment Property as a result of them being pledged as securities for liabilities.

There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligation on Investment Property.

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

12. Change in estimate

Property, plant and equipment

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

12. Accounting Officer's emoluments (continued)

On 1 July 2013 management performed the annual review of the reasonableness of the residual values and remaining useful lives of all movable assets. As a result certain assets for which residual values were not allocated, were allocated residual values accordingly in the following categories:

- Plant and equipment:
- Office equipment:
- IT equipment:
- Furniture:
- Vehicles:

2012	2012/13	Later

13. Property, plant and equipment

	2013			Restated 2012		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Buildings	21,198,781	(8,334,904)	12,863,877	21,198,781	(13,440,171)	7,758,610
Capital work in progress	75,218,071	-	75,218,071	79,121,139	-	79,121,139
Community assets	86,147,400	(58,788,260)	27,359,140	80,442,048	(51,773,728)	28,668,320
Furniture and fittings	3,248,165	(2,121,124)	1,127,041	3,425,521	(1,146,682)	2,278,839
IT equipment	5,198,211	(3,262,463)	1,935,748	6,502,746	(3,599,446)	2,903,300
Infrastructure	3,630,335,107	(1,434,306,489)	2,196,028,618	3,562,041,889	(1,193,336,474)	2,368,705,415
Land	8,493,631	-	8,493,631	8,493,631	-	8,493,631
Motor vehicles	41,827,312	(26,634,881)	15,192,431	44,934,140	(15,332,705)	29,601,435
Office equipment	14,689,392	(13,737,886)	951,506	15,096,628	(8,956,694)	6,139,934
Plant and machinery	3,954,315	(2,306,200)	1,648,115	5,210,691	(2,670,071)	2,540,620
Total	**3,890,310,385**	**(1,549,492,207)**	**2,340,818,178**	**3,826,467,214**	**(1,290,255,971)**	**2,536,211,243**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Change in Estimate**	**Depreciation**	**Total**
Buildings	7,758,610	5,354,728	-	-	-	(249,461)	12,863,877
Capital work in progress	79,121,139	-	-	(3,903,068)	-	-	75,218,071
Community assets	28,668,320	350,624	-	-	-	(1,659,804)	27,359,140
Furniture and fittings	2,278,839	47,214	(48,133)	-	(919,122)	(231,757)	1,127,041
IT equipment	2,903,300	141,704	(45,730)	-	(444,421)	(619,105)	1,935,748
Infrastructure	2,368,705,415	68,293,220	-	-	-	(240,970,017)	2,196,028,618
Land	8,493,631	-	-	-	-	-	8,493,631
Motor vehicles	29,601,435	300,618	(672,763)	-	(10,286,380)	(3,750,479)	15,192,431
Office equipment	6,139,934	46,057	(27,099)	-	(3,447,393)	(1,759,993)	951,506
Plant and machinery	2,540,620	122,709	(86,622)	-	(486,754)	(441,838)	1,648,115
	2,536,211,243	**74,656,874**	**(880,347)**	**(3,903,068)**	**(15,584,070)**	**(249,682,454)**	**2,340,818,178**

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers In	Other changes, movements	Depreciation	Total
Buildings	11,952,320	-	-	-	-	(4,193,710)	7,758,610
Capital work in progress	60,002,244	19,118,895	-	-	-	-	79,121,139
Community assets	28,917,781	-	-	-	-	(249,461)	28,668,320
Furniture and fittings	2,250,953	273,900	-	-	-	(246,014)	2,278,839
IT equipment	2,084,873	1,549,873	-	-	(6,306)	(725,140)	2,903,300
Infrastructure	2,581,063,309	26,595,804	-	-	-	(238,953,698)	2,368,705,415
Land	7,847,205	-	(144,577)	791,003	-	-	8,493,631
Motor vehicles	34,616,873	-	(130,829)	-	98,058	(4,982,667)	29,601,435
Office equipment	7,336,834	473,214	-	-	-	(1,670,114)	6,139,934
Plant and machinery	2,193,148	944,347	-	-	-	(596,875)	2,540,620
	2,738,265,540	**48,956,033**	**(275,406)**	**791,003**	**91,752**	**(251,617,679)**	**2,536,211,243**

Pledged as security

There are currently no restrictions on property, plant and equipment as a result of them being pledged as securities for liabilities.

Other information

	2013	2012
The entity currently has the following capital commitments with regards to capital expenditure on infrastructure assets:		
Approved and contracted for	21,342,006	50,955,956
The following amounts have been included in Other Income which relates to damaged, lost or given up property, plant and equipment.		
Proceeds received from Insurers	2,317,925	845,423

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Property, plant and equipment (continued)

The following amounts relates to leased assets held by the entity included in property, plant and equipment

Net carrying value of leased assets:	-	-
Motor vehicles	4,669,321	6,864,695
Office equipment	-	4,721,615
	4,669,321	**11,586,310**

Lease liability (refer to note 18)

Motor vehicle	(372,496)	(1,758,710)
Office equipment	(7,494)	(2,051,720)
	(379,990)	**(3,810,430)**

Property, Plant and Equipment fully depreciated and still in use (Gross Carrying Amounts)

Office Equipment	12,969,568	3,302
Plant and Machinery	1,618,062	9,770
Vehicles	990,930	147,731
Furniture and Fixtures	1,555,624	5,835
IT Equipment	1,979,075	-
	19,113,259	**166,638**

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

Capital work in progress refers to infrastructure projects which are still in the process of being completed.

14. Financial assets by category

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

2013

	Financial Assets carried at Amortised Cost	**Financial Assets Carried at Cost**	**Total**
Cash and cash equivalents	-	1,570,334	1,570,334
Short-term Deposits	-	8,020,854	8,020,854
Receivables from exchange transactions	64,412,807	-	64,412,807
Investments	-	339,555	339,555
Other receivables from non-exchange transactions	13,834,561	-	13,834,561
VAT receivable	20,088,863	-	20,088,863
	98,336,231	**9,930,743**	**108,266,974**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

14. Financial assets by category (continued)

2012

	Financial Assets carried at Amortised Cost	Financial Assets Carried at Cost	Total
Cash and cash equivalents	-	6,608,687	6,608,687
Short-term Deposits	-	9,138,279	9,138,279
Receivables from exchange transactions	50,261,866	-	50,261,866
Investments	-	316,345	316,345
Other receivables from non-exchange transactions	9,735,156	-	9,735,156
VAT receivable	6,601,377	-	6,601,377
	66,598,399	**16,063,311**	**82,661,710**

15. Financial liabilities by category

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

2013

	Financial liabilities at amortised cost	Total
Consumer deposits	8,821,409	8,821,409
Finance lease obligation	708,776	708,776
Long-term loans	28,547,451	28,547,451
Provisions	15,907,971	15,907,971
Payables from exchange transactions	147,201,779	147,201,779
Unspent conditional grants and receipts	2,899,364	2,899,364
	204,086,750	**204,086,750**

2012

	Financial liabilities at amortised cost	Total
Consumer deposits	8,315,020	8,315,020
Finance lease obligation	3,810,431	3,810,431
Long-term loans	28,455,244	28,455,244
Provisions	10,134,403	10,134,403
Payables from exchange transactions	162,664,911	162,664,911
Unspent conditional grants and receipts	7,322,263	7,322,263
	220,702,272	**220,702,272**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Employee benefit obligations

Defined benefit plan

The defined benefit plan, to which employees belong, consists of the Free State Municipal Pension Fund and the Councillors Pension Fund, governed by the Pension Fund (Act 24 of 1956).

The actuarial valuation determined that the retirement plan was in a sound financial position.

Post retirement medical aid plan

The Municipality’s current active employees and pensioners have the choice of participating in the following medical schemes:
- LA Health Medical Scheme;
- Bonitas Medical Scheme;
- Hosmed Medical Scheme;
- Samwumed Medical Scheme; and
- KeyHealth Medical Scheme

The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

	2013	2012
In-service members (employees)	26	41
Continuation members (e.g: Widows, orphans, pensioners)	90	77
	116	**118**

	2013	2012
Amounts recognised in the statement of Financial Performance are as follows:		
Current service cost	(565,000)	(457,000)
Interest cost	(3,488,000)	(2,973,000)
Expected return on plan assets	-	-
Actuarial gains/(losses)	(4,636,000)	(8,352,000)
Change in asset ceiling	-	-
Cash movements		
Benefit payments	2,525,000	2,186,000
Employer contributions	-	-
Net Expenditure recognised in the statement of Financial Performance	**(6,164,000)**	**(9,596,000)**

	2013	2012
Amounts recognised in the statement of Financial Position are as follows:		
Defined benefit obligation at beginning of year	(42,060,000)	(32,464,000)
Current service cost	(565,000)	(457,000)
Interest cost	(3,488,000)	(2,973,000)
Actuarial gains/(losses)	(4,636,000)	(8,352,000)
Benefit payments	2,525,000	2,186,000
	(48,224,000)	**(42,060,000)**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.20 %	8.00 %
Healthcare cost inflation	7.90 %	7.50 %
Net discount rate	0.28 %	0.47 %

The basis on which the discount rate has been determined is as follow:

In line with IAS 19 and current market practice, government bond yields are used as the South African corporate bond market is not considered to be sufficiently developed. Furthermore, it is PwC's view that South Africa does not have a deep and liquid market in corporate bonds, and therefore government bonds are used when setting our best-estimate discount rate assumption.

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

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 10.8 years, the expected duration of the liability based on the current membership data, as at 30 June 2013.

The expected benefit payments over the next annual reporting period is reflected in the table below.

Balance at 30 June 2013	(48,224,000)	-
Income statement		
Current service cost	(430,000)	-
Interest cost	(3,848,000)	-
Cash movement		
Expected benefit payments	3,023,000	-
Expected as at 30 June 2014	**(49,479,000)**	**-**

17. Retirement Benefit Information

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

Defined contribution plans

The following are defined contribution plans:
- Free State Municipal Provident Fund;
- Maokeng Provident Fund; and
- SAMWU National Provident Fund.

Defined benefit plans

The following are defined benefit plans:
- Government Employees Pension Fund;
- SALA Pension Fund; and
- Free State Municipal Pension Fund.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

17. Retirement Benefit Information (continued)

These are not treated as a defined benefit plan as defined by IAS 19, but as a defined contribution plan. These funds are multi employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in IAS 19, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi employer and state plans, these should be accounted for as defined contribution plans.

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

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R 1 531 million.

18. Consumer deposits

Kroonstad	8,821,409	8,315,020

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

19. Finance lease obligation

Total finance lease obligation		
Minimum lease payments due		
- within one year	333,858	3,600,139
- in second to fifth year inclusive	66,831	421,389
	400,689	4,021,528
less: future finance charges	(20,699)	(211,098)
Present value of minimum lease payments	**379,990**	**3,810,430**
Non-current liabilities	66,030	400,691
Current liabilities	313,960	3,409,740
	379,990	**3,810,431**

It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term does not exceed 5 years. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 13.

Finance lease obligation - motor vehicles		
Minimum lease payments due		
- within one year	326,116	1,429,563
- in second to fifth year inclusive	66,831	413,399
	392,947	1,842,962
less: future finance charges	(20,451)	(84,252)
Present value of minimum lease payments	**372,496**	**1,758,710**

Interest rates for leased motor vehicles are linked to prime at the contract date. No arrangements have been made to enter into contingent rent.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

19. Finance lease obligation (continued)

Finance lease obligation - equipment		
Minimum lease payments due		
- within one year	7,742	2,170,576
- in second to fifth year inclusive	-	7,990
	7,742	2,178,566
less: future finance charges	(248)	(126,846)
Present value of minimum lease payments	**7,494**	**2,051,720**

Interest rates for leased equipment are fixed at the contract date. Lease payments escalate between 10% - 15% per annum and no arrangements have been entered into for contingent rent.

20. Long term loans

At amortised cost		
Annuity loans - Development Bank of South Africa	28,547,451	28,455,244
Non-current liabilities		
At amortised cost	27,038,976	2,698,405
Current liabilities		
At amortised cost	1,508,475	25,756,839

21. Payables from exchange transactions

Annual Bonus Accrual	3,907,489	3,170,638
Deposits received	394	834
Leave Pay Accrual	10,305,665	9,596,039
Other payables	122,638,640	136,252,601
Payments received in advance	6,844,857	4,404,275
Retention creditors	3,837,884	4,726,760
	147,534,929	**158,151,147**

Suppliers have not been paid within the prescribed 30 day period due to cashflow constraints.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
LGSETA Grant	1,122,603	1,558,909
Integrated National Electrification programme (INEG)	521,477	4,424,233
Extended Public Works Programme (EPWP)	107,662	61,206
Department of Water Affairs (DWA)	-	130,293
Department of Local Government (DPLG)	1,147,622	1,147,622
	2,899,364	**7,322,263**

Movement during the year

Balance at the beginning of the year	7,322,263	5,421,496
Additions during the year	61,232,984	56,407,426
Income recognition during the year	(65,655,883)	(54,506,659)
	2,899,364	**7,322,263**

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

Unfulfilled conditions and other contingencies attaching to government assistance is recognised as a liability until such time that the conditions are met. Once the conditions are met it is recognised as revenue.

See note 25 for reconciliation of grants from other spheres of government. The amounts are recognised as revenue when the qualifying expenditure is incurred.

Notes to the Annual Financial Statements

23. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Contribution	Utilised during the year	Interest cost	Total
Funeral Assistance	151,000	-	(10,000)	-	141,000
Long Service Bonus Provision	11,107,000	847,000	-	780,000	12,734,000
Provision for the rehabilitation cost of landfill sites	3,361,506	151,035	-	(279,743)	3,232,798
Provision for the rehabilitation cost of quarries	1,607,318	110,439	-	(109,650)	1,608,107
	16,226,824	**1,108,474**	**(10,000)**	**390,607**	**17,715,905**

Reconciliation of provisions - 2012

	Opening Balance	Contribution	Utilised during the year	Interest cost	Total
Funeral Assistance	168,000	20,170	(37,170)	-	151,000
Long Service Bonus Provision	9,594,000	743,000	-	770,000	11,107,000
Provision for the rehabilitation cost of landfill sites	1,823,157	1,942,719	(1,791,000)	1,386,630	3,361,506
Provision for the rehabilitation cost of quarries	2,191,493	(1,221,016)	-	636,841	1,607,318
	13,776,650	**1,484,873**	**(1,828,170)**	**2,793,471**	**16,226,824**

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Kroonstad, Viljoenskroon and Steynsrus. Provision has been made for this cost based on actual cost calculations received.

No significant judgments were made because actual quotations were obtained at the specified dates to determine these costs.

Funeral Death Benefit

The funeral death benefit scheme was initiated by the Municipality for its employees who were appointed prior to 1996. The scheme is only open to municipal employees, and payout's are only made to employees who die in the service of the Municipality.

Kroonstad landfill site
The landfill site at Kroonstad needs to be rehabilitated after 4 years (2017). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Viljoenskroon landfill site
The landfill site at Viljoenskroon needs to be rehabilitated after 0 year. Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Steynsrus landfill site
The landfill site at Steynsrus needs to be rehabilitated after 14 years (2027). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Details on rehabilitation provision for quarries:

Kroonstad gravel quarries
The gravel quarries at Kroonstad need to be rehabilitated after 4 years (2017). Rehabilitation costs to be incurred are stipulated by the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass and the slope erected.

Figures in Rand	2013	2012

23. Provisions (continued)

Steynsrus gravel quarries
The gravel quarries at Steynsrus needs to be rehabilitated after 8 years (2021). Rehabilitation costs to be incurred are stipulated by the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass and the slope erected.

Long service award (LSA)

The provision relates to the Long Service Award obligation for the municipal employees. The actuarial valuation was performed in line with the requirements of IAS 19.

	2013	2012
Amounts recognised in the statement of Financial Performance are as follows:		
Current service cost	(1,086,000)	(972,000)
Interest cost	(780,000)	(770,000)
Expected return on plan assets	-	-
Actuarial gains/(losses)	(743,000)	(1,085,000)
Change in asset ceiling	-	-
Cash movements		
Benefit payments	982,000	1,314,000
Employer contributions	-	-
Net Expenditure recognised in the statement of Financial Performance	**(1,627,000)**	**(1,513,000)**

	2013	2012
Amounts recognised in the statement of Financial Position are as follows:		
Defined benefit obligation	(12,734,000)	(11,107,000)
Plan assets	-	-
Unrecognised actuarial (gains)/losses	-	-
Net obligation recognised in the Statement of Financial Position	**(12,734,000)**	**(11,107,000)**

Key assumptions used:

Assumptions used at the reporting date:

	2013	2012
Discount rates used	7.45%	7.10%
Salary inflation	7.90%	7.50%
Net discount rate	-0.42%	-0.37%

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is our best estimate assumption of a CPI inflation rate, consistent with the gross discount rate, is determined with reference to the difference between the yields on government conventional and index-linked bonds as at valuation date, adjusted by a liquidity risk premium of 0.35%. A 2% margin is added to these estimates to arrive at the best estimate assumption for a salary inflation.

24. Revenue

	2013	2012
Service charges	300,635,370	239,513,102
Rental income	4,190,682	4,522,527
Fees earned	848,038	705,292
Discount received	144	12,248
Other income	12,296,163	5,270,636
Interest received - investment	5,785,853	5,706,213
Dividends received	8,109	14,258
Property rates	42,025,820	38,800,214
Government grants & subsidies	228,899,884	198,538,424
Fines	974,809	893,535
	595,664,872	**493,976,449**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

24. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	300,635,370	239,513,102
Rental income	4,190,682	4,522,527
Dividends received	8,109	14,258
Other income	12,296,163	5,270,636
Fees earned	848,038	705,292
Interest received - investment	5,785,853	5,706,213
	323,764,215	**255,732,028**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Discount received	144	12,248
Property rates	42,025,820	38,800,214
Government grants & subsidies	228,899,884	198,538,424
Fines	974,809	893,535
	271,900,657	**238,244,421**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

25. Government grants and subsidies

Equitable share	157,155,000	142,173,000
Councillors remuneration grant	6,089,000	3,008,000
MSIG	800,000	790,000
LG SETA grant	1,213,197	1,939,650
Municipal Infrastructure grant	46,897,000	38,661,000
Rehabilitation of sewerage network - DWA	8,130,387	2,104,581
FMG grant	1,500,000	2,142,014
Integrated National Electrification grant	5,902,756	975,767
Expanded Public Works Program grant	1,212,544	1,233,794
DBSA Grant	-	2,700,000
Fezile Dabi District Municipality grant	-	285,000
FS Human Settlements	-	2,525,618
	228,899,884	**198,538,424**

Councillor remuneration grant

Balance unspent at beginning of year	-	-
Current-year receipts	6,089,000	3,008,000
Conditions met - transferred to revenue	(6,089,000)	(3,008,000)
Unspent grant	**-**	**-**

In terms of the Constitution, this grant is used to subsidise the remuneration of councillors.

Equitable Share

Balance unspent at beginning of year	-	-
Current-year receipts	157,155,000	142,173,000
Conditions met - transferred to revenue	(157,155,000)	(142,173,000)
Unspent grant	**-**	**-**

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

Extended Public Works Program grant

Balance unspent at beginning of year	61,206	-
Current-year receipts	1,259,000	1,295,000
Conditions met - transferred to revenue	(1,212,544)	(1,233,794)
Unspent grant	**107,662**	**61,206**

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

This grant is used in respect of job creation projects and programmes.

Financial management grant

Balance unspent at beginning of year	-	692,000
Current-year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(1,500,000)	(2,142,000)
Unspent grant	**-**	**-**

Figures in Rand	2013	2012

25. Government grants and subsidies (continued)

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

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

Housing development grant

Balance unspent at year end	1,147,622	1,147,622

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

This grant is to be used to assist with the development of urban renewal.

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	1,317,612
Current-year receipts	800,000	790,000
Conditions met - transferred to revenue	(800,000)	(790,000)
Funds withheld due to non spending (in previous years)	(583,000)	(1,317,612)
Adjustment against accumulated surplus	583,000	-
Unspent grant	**-**	**-**

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

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

Integrated national electrification grant

Balance unspent at beginning of year	4,424,233	-
Current-year receipts	2,000,000	5,400,000
Conditions met - transferred to revenue	(5,902,756)	(975,767)
Unspent grant	**521,477**	**4,424,233**

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

The purpose of the grant is to facilitate the municipality electrical infrastructure needs.

LG SETA grant

Balance unspent at beginning of year	1,558,909	699,351
Current-year receipts	776,890	2,799,208
Conditions met - transferred to revenue	(1,213,197)	(1,939,650)
Unspent grant	**1,122,602**	**1,558,909**

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

The grant is used for training municipality staff to enhance their skills in their respective positions.

Municipal infrastructure grant

Balance unspent at beginning of year	-	-
Current-year receipts	46,897,000	38,661,000
Conditions met - transferred to revenue	(46,897,000)	(38,661,000)
Unspent grant	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

25. Government grants and subsidies (continued)

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

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

Rehabilitation of sewerage network - DWA Grant

	2013	2012
Balance unspent at beginning of year	130,243	1,564,911
Current-year receipts	8,000,094	501,600
Conditions met - transferred to revenue	(8,130,337)	(1,936,268)
Unspent grant	**-**	**130,243**

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

The grant is used to assist with the rehabilitation of the sewerage water treatment system of Moqhaka. This grant is funded by the Department of Water Affairs.

DBSA Grant

	2013	2012
Current-year receipts	-	2,700,000
Conditions met - transferred to revenue	-	(2,700,000)
Unspent grant	**-**	**-**

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

This grant was received in order to assist the Municipality to close the toilet top structures.

Fezile Dabi District Municipality Grant

	2013	2012
Current-year receipts	-	285,000
Conditions met - transferred to revenue	-	(285,000)
Unspent grant	**-**	**-**

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

This grant was to assist the Municipality in the compilation of financial statements.

FS Human Settlements

	2013	2012
Current-year receipts	-	2,525,618
Conditions met - transferred to revenue	-	(2,525,618)
Unspent grant	**-**	**-**

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

Provide explanations of conditions still to be met and other relevant information

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 2 financial years.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

26. Property rates

Rates

Residential	32,265,808	31,269,691
State	9,760,012	7,530,523
	42,025,820	**38,800,214**

Valuations

Commercial	1,029,410,277	886,043,978
Multi-purpose	257,305,800	210,355,000
Municipal	296,583,859	166,719,527
Non-ratable	175,400,500	144,149,105
Residential	7,397,853,040	6,044,183,488
State	1,135,240,547	747,136,540
	10,291,794,023	**8,198,587,638**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions.

An average rate of R0.004 (2012: R0.004) is applied to property valuations to determine assessment rates. The first R50 000 of residential property is exempt from taxation. Rebates of 20% are granted to state property owners.

Rates are levied on an monthly basis. Interest at prime plus 1% per annum (2012: prime +1%) is levied on rates outstanding two months after due date.

27. Service charges

Refuse removal	12,264,076	9,858,380
Sale of electricity	193,930,553	164,519,117
Sale of water	73,239,512	49,813,147
Sewerage and sanitation charges	21,201,229	15,322,458
	300,635,370	**239,513,102**

28. Investment revenue

Dividend revenue		
Unlisted shares	8,109	14,258
Interest revenue		
Bank	970,382	668,638
Interest charged on receivables from exchange transactions	4,815,471	5,037,575
	5,785,853	**5,706,213**
	5,793,962	**5,720,471**

All amounts above included in investment revenue arises from exchange transactions.

29. Other revenue

Admittance fees earned	848,038	705,292
Fines	974,809	893,535
Discount received	144	12,248
	1,822,991	**1,611,075**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

30. Other income

Advertisements	1,000	44,229
Burial income	859,512	708,116
Connection fees	711,336	799,418
Erven sales	25,041	471,413
Fire Brigade Fees	23,510	-
Insurance claims	2,317,925	845,423
Other income	1,335,464	1,212,256
Reconnection fees recovered	256,371	240,702
Donations received	5,885,028	28,123
Telephone costs recovered	407,540	325,960
Railway siding industrial	512,608	570,282
Sundry income	6,307	8,877
Water valuation adjustments	(45,479)	15,837
	12,296,163	**5,270,636**

31. Rental income

Facilities and equipment		
Rental of facilities and equipment	4,190,682	4,522,527

32. General expenses

Advertising	180,819	567,102
Auditors remuneration	4,179,948	4,034,076
Bank charges	1,845,986	1,652,337
Cleaning	4,482	47,623
Consulting and professional fees	5,463,053	8,499,336
Consumables	-	2,396
Entertainment	172,383	239,466
Insurance	6,533,709	5,116,921
Conferences and seminars	1,078,876	1,229,158
Rental expenses	4,058,564	739,971
Skills development levies	1,414,079	1,201,411
Fuel and oil	5,119,122	5,845,882
Postage and courier	1,287,656	1,244,863
Printing and stationery	1,694,187	1,424,249
Protective clothing	220,757	772,439
Provision for rehabilitation adjustment	261,474	721,703
Subscriptions and membership fees	1,824,406	1,750,247
Telephone and fax	1,274,250	1,380,558
Training	42,172	73,445
Indigent contributions	10,250,644	6,978,248
Commission paid	3,638,242	3,094,995
Valuation roll	362,360	2,354,184
Workmen's compensation	1,000,000	1,009,008
Licences - other	1,561,549	1,559,920
Licences - vehicles	345,674	349,312
Special programs	316,486	264,747
Chemicals	3,751,141	4,731,878
Other expenses	9,620,396	6,071,103
	67,502,415	**62,956,578**

Figures in Rand	2013	2012

33. Employee related costs

Salaries	92,182,838	85,592,897
Bonus	8,003,657	6,781,264
Car allowance	7,332,013	6,441,635
Housing benefits and allowances	764,423	779,598
Leave pay provision charge	2,349,167	3,892,866
Long-service awards	-	5,858,747
Medical aid - company contributions	11,109,594	10,509,197
Other allowances	607,539	576,529
Other payroll levies	1,734,105	1,643,862
Overtime payments	11,805,446	11,894,870
Post-employment benefits - Defined contribution & benefit plans	15,786,483	14,429,844
Standby allowance	1,004,745	872,578
Telephone allowance	379,383	411,416
UIF	998,693	888,480
	154,058,086	**150,573,783**

Remuneration of Municipal Manager - Mr MS Mqwathi

Annual Remuneration	625,000	561,085
Contributions to UIF, Medical and Pension Funds	1,463	29,206
Allowances	434,203	383,330
Travel and subsistence	37,249	23,945
Skills development levy	8,794	8,799
	1,106,709	**1,006,365**

Remuneration of Chief Finance Officer

Annual Remuneration	443,567	527,000
Contributions to UIF, Medical and Pension Funds	46,086	118,966
Allowances	384,290	258,543
Travel and subsistence	7,318	12,768
Skills development levy	5,414	7,201
	886,675	**924,478**

The remuneration of the Chief Finance Officer is for 9 months of the financial year.
The CFO (Mr Mokoena) resigned on the 28 March 2013.

Remuneration of executive directors

Executive Director: Technical services	-	-
Annual Remuneration	367,500	537,602
Allowance	1,041	220,633
Contributions to UIF, Medical and Pension Funds	250,959	105,203
Travel and subsistence	16,814	19,147
Skills development levy	5,766	6,954
	642,080	**889,539**

The remuneration of the Technical Services director is only for 7 months of the financial year, as Mr Mokgatle was appointed on the 1 December 2012.

Acting

Acting allowance	96 304	

Mr MH Geringer received an acting allowance for the period of 1 July 2012 to 30 November 2012.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

33. Employee related costs (continued)

Executive Director: Corporate services	-	-
Annual Remuneration	367,500	502,584
Allowance	196,259	275,829
Contributions to UIF, Medical and Pension Funds	55,741	90,524
Travel and subsistence	9,804	9,856
Skills development levy	5,215	6,970
	634,519	**885,763**

The remuneration of the Corporate Services director is only for 10 months of the financial year, as Mr Mthwalo was appointed on the 1 December 2012.

Acting

Acting allowance	32 720	

Mr Odendaal received an acting allowance for the period of 1 Oct 2012 to 30 November 2012.

Executive Director: Community services	-	-
Annual Remuneration	359,940	502,584
Allowance	221,413	304,357
Contributions to UIF, Medical and Pension Funds	13,087	23,320
Travel and subsistence	10,830	10,445
Skills development levy	5,590	7,665
	610,860	**848,371**

The remuneration of the Corporate Services director is only for 7 months of the financial year, as Ms Tshabalala was appointed on the 1 December 2012.

Acting		
Acting allowance - Mr Gavhi	43,108	-
Acting allowance - Mr van der Westhuizen	56,204	-
	99,312	**-**

Mr Gavhi received an acting allowance for a period of 1 July 2012 to 30 September 2012.
Mr van der Westhuizen received an acting allowance for a period of 1 October 2012 to 30 November 2012.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

34. Remuneration of Councillors

Executive Mayor	422,118	639,948
Mayoral Committee Members	3,350,885	5,448,818
Speaker	334,699	515,838
Councillors	8,604,240	7,523,755
Councillors' medical and pension fund contributions	2,125,210	-
	14,837,152	**14,128,359**

The salaries, allowances and benefits of councillors as disclosed are within the upper limits of the SALGA Bargaining Council determinations.

Executive Mayor - Cllr JM Mohapi		
Basic Salary	430,235	399,328
Car Allowance	167,572	158,836
Social Contributions	84,800	62,944
Cellphone Allowance	19,872	18,840
	702,479	**639,948**

Speaker - Cllr ACWD Nakedi		
Basic Salary	376,804	316,645
Car Allowance	134,057	126,853
Social Contributions	70,867	53,502
Cellphone Allowance	19,872	18,840
	601,600	**515,840**

Mayoral Committee Members

MMC - COMMUNITY SERVICES: Cllr S Mokoena (01/07/2011 - 30/06/2013)		
Basic Salary	318,101	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	531,026	**495,347**

MMC - TECHNICAL SERVICES: Cllr MP Thipane (01/07/2011 - 30/06/2013)		
Basic Salary	331,869	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Contributions	19,872	18,840
	544,794	**495,347**

MMC - IDP AND PLANNING: Cllr DA Tau (01/07/2011 - 30/06/2013)		
Basic Salary	321,674	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	534,599	**495,347**

MMC - PUBLIC SAFETY: Cllr ER Moletsane (01/07/2011 - 30/06/2013)		
Basic Salary	329,982	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	542,907	**495,347**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

34. Remuneration of Councillors (continued)

MMC - PERSONNEL AND ADMINISTRATION: Cllr MA Koloi (01/07/2011 - 30/06/2013)

Basic Salary	322,905	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	535,830	**495,347**

MMC - RURAL DEVELOPMENT AND LAND REFORM: Cllr MLM Machobane (01/07/2011 - 30/06/2013)

Basic Salary	317,050	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	529,975	**495,347**

MMC - HUMAN SETTLEMENT: Cllr ME Mokotla (01/07/2011 - 30/06/2013)

Basic Salary	319,965	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	532,890	**495,347**

MMC - SPORT, ARTS, CULTURE & RECREATION: Cllr NP Mokodutlo (01/07/2011 - 30/06/2013)

Basic Salary	354,511	295,739
Car Allowance	120,791	119,127
Social Contributions	20,643	61,641
Cellphone Allowance	19,872	18,840
	515,817	**495,347**

MMC - COUNCIL WHIP: Cllr J Mareka (01/07/2011 - 30/06/2013)

Basic Salary	329,968	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	542,893	**495,347**

MMC - LOCAL ECONOMIC DEVELOPMENT & INVESTMENT: Cllr TL Makau (01/07/2011 - 30/06/2013)

Basic Salary	314,875	295,739
Car Allowance	125,679	119,127
Social Contributions	67,393	61,641
Cellphone Allowance	19,872	18,840
	527,819	**495,347**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

34. Remuneration of Councillors (continued)

MMC - FINANCE, AUDIT AND RISK MANAGEMENT: Cllr DPC Colbert (01/07/2011 - 30/06/2013)

Basic Salary	320,028	295,739
Car Allowance	125,679	119,127
Social Contributions	67,374	61,641
Cellphone Allowance	19,872	18,840
	532,953	**495,347**

PART TIME COUNCILLORS
Cllr's A Masuret, MJ Letsabo, AH Viljoen, TM Mkhwanazi, AMS Dire, JM Hattingh, MA Monoto, MJ Mofokeng, MD Mbono, M Pittaway, FM Taje, DM Shahim, SB Tladi, GV Wille, NW Mkhotheni, EM Notsi, SV Malokotsa, MM Green, DM Kubheka, LD Kgang, TM Ntsala, MJ Sethabela, B Rooskrans, NM Selikoe, ME Letsitsa, ZS Magadlela, LP Mahasa, EV Rajuili, DA Moeketsi, LM Seleke, MI Thajane, WL Makoele, CM Dalton, MJ Lithupa, DN Nzunga

Basic Salary	4,825,273	4,049,893
Car Allowance	1,835,915	1,765,889
Social Contributions	755,109	1,247,874
Cellphone Allowance	456,834	435,375
	7,873,131	**7,499,031**

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are employed on a full-time basis. Each is provided with an office and secretarial support at the cost of the Council.

35. Debt impairment

Debt impairment - receivables from exchange transactions	(48,109,163)	19,101,893

36. Fair value adjustments

Investment property (Fair value model)	-	2,785,865
Investment in Shares	17,733	(2,836)
	17,733	**2,783,029**

37. Depreciation and amortisation

Property, plant and equipment	249,682,449	251,617,679
Intangible assets	338,141	432,741
	250,020,590	**252,050,420**

38. Finance costs

Interest on Employee Benefits	4,268,000	3,743,000
Interest on INCA Loans	-	46,448
Interest on annuity loans	2,640,697	3,455,223
Interest on bank overdraft	15	65
Interest on finance leases	171,522	1,315,129
Interest on late payment of creditors	3,726,351	6,998,956
Interest on Landfill sites & Quarries	(389,393)	2,023,471
	10,417,192	**17,582,292**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

39. Auditors' remuneration

Fees	4,179,948	4,034,076

40. Contracted services

Specialist Services	8,632,873	7,043,787
Other Contractors	1,405,624	1,421,529
	10,038,497	**8,465,316**

41. Grants and subsidies paid

DBSA Grant - Expenditure	-	2,700,000
FMG Grant Expenditure	1,256,374	2,099,701
Fezile Dabi District Municipality Grant Expenses	-	285,000
Grant Expenditure - LG SETA	1,172,871	1,939,650
FS Human Settlements	-	2,525,618
MSIG Grant Expenditure	571,231	790,000
	3,000,476	**10,339,969**

42. Bulk purchases

Electricity	164,088,758	140,117,724
Water	897,031	2,103,908
	164,985,789	**142,221,632**

43. Cash generated from operations

Deficit	(68,248,473)	(227,574,592)
Adjustments for:		
Loss on sale of assets	880,348	82,483
Retirement Benefits - Actuarial Gains/(losses)	3,523,000	7,366,000
Fair value adjustments	(17,733)	(2,783,029)
Finance costs - Finance leases	171,522	1,315,129
Debt impairment	(48,109,163)	19,101,893
Movements in receivables from lease assets and accruals	-	71,674
Movements in provisions	1,489,081	10,952,489
Other non-cash items	177,342,169	369,203,494
Sundry receivables - Political Parties	-	(497,996)
Finance costs - Employee Benefits	-	3,743,000
Changes in working capital:		
(Increase) / decrease in inventories	(90,187)	(326,350)
Decrease / (increase) in other receivables from non-exchange transactions	(1,568,482)	(827,959)
(Increase) / Decrease in receivables from exchange transactions	33,958,161	(31,665,067)
Increase in trade and other payables from exchange transactions	(10,616,218)	9,874,131
(Decrease) / increase in VAT	(12,748,130)	1,281,700
Increase / (decrease) in unspent conditional grants and receipts	(4,422,899)	1,900,767
Increase/(Decrease) in consumer deposits	506,389	608,486
	72,049,385	**161,826,253**

Figures in Rand	2013	2012

44. Contingencies

Contingent liabilities - pending claims

The municipality is being sued for some of the following pending claims against the council. All the claims are being contested based on legal advice.

The certainty and the timing of the outflow of these liabilities are uncertain. The amounts disclosed below are possible outflow amounts.

	2013	2012
Claims by individuals due to damage of property in various incidents	91,719	104,117
Claims from the South African Local Government Association	-	4,000,000
Claims from creditors - account disputes	-	134,843
Claims from suppliers - contractual disputes	20,460,272	19,400,775
Landfill site	-	10,000,000
Claims by individuals due to injuries in various incidents	326,729	-
Leave accrual	1,640,089	-
	22,518,809	**33,639,735**

Wage Curve Agreement:
As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/payable prior to the outcome of the pending litigation.

45. Related parties

Relationships

Accounting Officer	Refer to accounting officer report
Post employment benefit plan for employees of entity and/or other related parties	Refer to note 17
Members of key management	Refer to note 33 and 51

The municipality did not enter into any related party transactions during the year under review, which were not at arm's length.

Key management information

Class	Description	Number
Section 57 managers		4
Executive Mayor		1
Councillors		49
Municipal Manager		1

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. Prior period errors

A number of prior period errors were corrected during the year ending 30 June 2013. The details of the prior period errors adjusted are reflected below.

Summary

Property, plant & equipment: Infrastructure assets - Recogntion of the new infrastructure asset register.

Property, plant & equipment: Movable assets - updating the movables assets register with the respective audit queries raised by the Auditor General.

Heritage Assets: Recognition of heritage assets not previously recognised in the entity's records.

Receivable from non-exchange: The grant received from FS Human Settlements was erroneously not accounted for in the 2011-12 financial year.

Intangible Assets - adjustment of the cost price which was not recorded at the invoice price.

Leave pay accrual - correction of the employee leave balances that was accrued for as at 30 June 2012.

Inventory - adjustment of the closing inventory balance, due to a change in the valuation calculation relating to the cost price per kilo litre of water.

Post retirement medical benefit - these benefits were previously recognised, however the valuation was performed by the actuaries based on all employee who work for the municipality, instead of only those employees who qualify for these benefits as per the SALGA resolution.

Long service bonus awards - recognition of LSA which was not previously valued in line with the requirements of IAS 19.

Payables - adjustments were processed to the payables accounts as a result of audit queries that were raised by the Auditor General.

Investment properties - adjustments were made to the investment property in the comparative period, as the entity is measuring its investment property at fair value. The fair value gain has been accounted for accordingly.

Landfill sites & Quarries - adjustments were made to the prior year balances of landfill sites due to corrections/adjustments made to the valution working paper.

Land: Derecognition of land which no longer belonged to the municipality from the land register.

Property, Plant and Equipment (Community Assets & Buildings: recognition of depreciation which was erroneously left out in the previous financial year.

	R	R
Statement of financial position		
Property, plant and equipment-Infrastructure	-	1,374,352,408
Property, plant and equipment-Movable Assets	-	91,752
Heritage Assets	-	868,106
Receivables from non-exchange	-	2,525,618
Intangible Assets	-	7,333
Leave Pay Accrual	-	5,866,366
Inventory	-	(32,209)
Post retirement medical benefits	-	28,871,000
Long service awards	-	(4,156,568)
Other payables	-	(1,402,602)
Investment properties	-	6,480,295
Provision for Landfill sites and Quarries	-	(1,935,853)
Land	-	(144,577)
Property, plant and equipment (Community Assets)	-	(4,193,845)

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. Prior period errors (continued)

Property, plant and equipment (Buildings)	-	(249,326)
Accumulated Surplus	-	(1,392,034,477)
	-	**14,913,421**

Statement of Financial Performance		
Service charges - Prepaid electricity	-	1,009,176
Depreciation and amortisation	-	956,927
Employee related costs	-	5,916,366
Finance Cost	-	103,471
Actuarial gains/(losses) on Defined benefit obligation	-	4,054,000
Fair value Gains/(losses) on investment properties	-	2,785,865
General Expenses	-	87,616
Government Grants and Subsidies	-	(2,525,618)
Grants and Subsidies paid	-	2,525,618
	-	**14,913,421**

47. Comparative figures

Certain comparative figures have been reclassified.

Finance costs:
Finance costs was reclassified on the comparative balance, so as to ensure that interest on the INCA and DBSA loans are reflected at the correct amounts. (Note: 38)

Assessment rates:
Assessments rates were reclassified from exchange receivables to non-exchange receivables, this was also following the audit query raised by the Office of the Auditor General. (Note: 7)

Fees earned:
The administration fees have been reclassified from other income to fees earned, as this reclassification will result in a more transparent presentation of the revenue received. (Note: 29)

Investment property:
Municipal parks were erroneously included as part of land in the investment property register, and has been reclassified accordingly. (Note: 11)

The effects of the reclassification are as follows:

Statement of financial position		
Receivables from exchange transactions	-	(9,090,139)
Receivables from non-exchange transactions	-	9,090,139

Statement of Financial Performance		
Finance costs - Interest on INCA loans	-	(24,125)
Finance costs - Interest on Annuity loans	-	24,125
Fees earned	-	58,179
Other income	-	(58,179)

48. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 19, 20, 21, cash and cash equivalents disclosed in note 3, and accumulated surplus as disclosed in the statement of financial position.

48. Risk management (continued)

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The municipality's total net borrowings consist of the following:

		2013	2012
Total Borrowings			
Finance lease obligation	19	379,990	3,810,431
Long-term Loans	20	28,547,451	28,455,244
Trade and other payables from exchange transactions	21	147,534,929	158,151,147
		176,462,370	**190,416,822**
Less: Cash and cash equivalents	3	9,731,284	15,746,966
Net debt		166,731,086	174,669,856

Financial risk management

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

Liquidity risk

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.

The municipality’s risk to liquidity is a result of funds not being available to cover future commitments. The table below analyses the municipality’s 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 2013	Total	Less than 1 year	Between 1 and 5 years	Over 5 years
Finance lease obligations	379,990	313,960	66,030	-
Other financial liabilities	-	1,508,475	27,038,976	-
Trade and other payables from exchange transactions	147,534,929	147,534,929	-	-
Consumer deposits	8,821,409	8,821,409	-	-
	156,736,328	158,178,773	27,105,006	-

At 30 June 2012	Total	Less than 1 year	Between 1 and 5 years	Over 5 years
Finance lease obligations	3,810,431	3,409,740	400,691	-
Other financial liabilities	-	25,756,839	2,698,405	-
Trade and other payables from exchange transactions	158,151,147	158,151,147	-	-
Consumer deposits	8,315,020	8,315,020	-	-
	170,276,598	195,632,746	3,099,096	-

The municipality is currently negotiating revised repayment terms with regards to financial liabilities.

48. Risk management (continued)

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2013 and 2012, the municipality's borrowings at variable rate were denominated in the Rand.

At 30 June 2013, if interest rates on Rand-denominated borrowings had been 1% higher/lower with all other variables held constant, deficit for the year would have been R - lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R - lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

At year end, financial instruments exposed to interest rate risk were as follows:

- ABSA primary bank account;
- FNB bank account;
- ABSA fixed deposits;
- ABSA notice deposit;
- FNB call deposits;
- Finance lease obligations; and
- Various annuity loans;

The following financial instruments at year-end carried a variable interest rate;
- ABSA primary bank account;
- Finance lease obligations;

The following financial instruments at year-end carried a fixed interest rate;
- FNB bank account;
- ABSA fixed deposits;
- ABSA notice deposit;
- FNB call deposits;
- Various annuity loans;

Credit risk

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

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

48. Risk management (continued)

Consumer Debtors
The municipality's consumer receivables exposure to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the municipality such as electricity, water, sanitation, refuse and rates levied. Consumer receivables constitute approximately 86% of the municipality's total exposure to maximum credit risk. The municipality's exposure and credit ratings of its customers are continuously monitored.

The municipality establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. No trade or other receivables have been pledged as security. Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written-off accordingly. No conditions or terms of the trade and other receivables have been re-negotiated with counterparties.

Cash and Cash Equivalents
Moqhaka local municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa.

Investments
It is the municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990. Given the high credit ratings of these financial institutions the municipality does not expect any counterparty to fail to meet its obligation.

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

Financial instrument	2013	2012
ABSA bank	1,376,377	6,596,859
ABSA Bank Short-term Deposits	8,020,854	9,138,279
First National Bank	-	(92)
First National Bank Fixed Deposit	-	11,300
Receivables from exchange transactions	64,412,868	50,261,866
Other receivables from exchange transactions	13,829,257	12,260,775

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position as financial assets at fair value through surplus or deficit. The municipality is not exposed to commodity price risk.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

49. Going concern

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

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

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- The significant decrease in accounts payable of R 11 million (2012: R 24 million);
- The municipality incurred a deficit during the year of R 68 million (2012: deficit R 21 million);
- The creditors are not paid within 30 days as required by the MFMA;
- Debt collection period has not improved during the current year;
- The gross outstanding debtors decreased from R 255 million in 2012 to R 231 million as at 30 June 2013;
- The provision for doubtful debts have been estimated at R 167 million (2012: R 205 million). This equates to approximately 79% of gross outstanding debtors (2012: 85%) before accrued water and electricity. Included in provision for doubtful debts is an amount of R 54 million for indigent debtors (2012: R88 million) which will be written off by the municipality during 2013 year end.

At 30 June 2013 the municipality's current liabilities amounted to R 161 million (2012: R 203 million), whilst the current assets amounted to R 112 million (2012: R 88 million).

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

50. Events after the reporting date

There were no subsequent events after the reporting date that had an impact on the financial results as disclosed for the year ended 30 June 2013.

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	1,695,889	1,592,563
Current year subscription / fee	1,616,139	1,148,465
Amount paid - current year	-	(395,240)
Amount paid - previous years	(1,695,889)	(649,899)
	1,616,139	**1,695,889**

Material losses through criminal conduct

There were no material losses incurred due to criminal conduct identified during the year by the municipality.

Audit fees

Opening balance	2,130,337	1,798,784
Current year fee	4,754,361	4,190,094
Interest charged	195,360	80,464
Amount paid - current year	(1,338,518)	(2,140,221)
Amount paid - previous years	(2,130,337)	(1,798,784)
	3,611,203	**2,130,337**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

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

PAYE and UIF

	2013	2012
Opening balance	1,467,421	-
Current year payroll deductions	17,354,965	16,460,145
Amount paid - current year	(17,517,576)	(14,992,724)
	1,304,810	**1,467,421**

Pension and Medical Aid Deductions

	2013	2012
Opening balance	-	-
Current year payroll deductions and council contributions	35,921,581	33,879,890
Amount paid - current year	(32,566,142)	(33,879,890)
	3,355,439	**-**

Skills Development Levy

	2013	2012
Opening balance	104,711	-
Current year payroll deductions and council contributions	1,326,810	1,201,346
Amount paid - current year	(1,327,193)	(1,096,635)
	104,328	**104,711**

Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

	2013	2012
Estimated line losses	9,536,299	8,463,554
Losses due to tampering or theft	22,897,224	16,979,855
	32,433,523	**25,443,409**

Estimated water losses suffered by the municipality for the year under review is are follows:

	2013	2012
Estimated water losses	8,795,621	10,261,896

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	**Outstanding more than 90 days R**
Dire MP	803
Kgang LD	669
Letsabo MJ	733
Twapa VPM	93,215
Makau TL	518
Makoele WL	5,425
Matshedisho DA	793
Ntsala TM	1,137
Nzunga DN	23,680
	126,973

Notes to the Annual Financial Statements

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

30 June 2012	Outstanding more than 90 days R
Dire AMS	1,864
Green MM	15,881
Kgang LD	728
Letsabo MJ	714
Twapa VPM	97,931
Makau TL	933
Makoele WL	7,825
Mkwhanazi TM	732
Moeketsi DA	7,942
Moletsane ER	1,122
Notsi EM	9,539
Ntsala TM	1,976
Nzunga DN	23,796
Rajuili EV	11,721
Rooskrans B	7,297
Seleke LM	3,323
Selikoe NM	2,232
Silevu JS	2,983
Taje FM	3,789
Thajane MI	1,094
Thipane MP	271
	203,693

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 are listed in note 52 to 54.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

52. Irregular expenditure

Opening balance	59,554,331	88,698,826
Add: Irregular expenditure - current year	85,240,612	59,554,331
Less: Amounts approved / written-off	-	(88,698,826)
Less: Amounts recoverable (not approved)	-	-
Less: Amounts not recoverable (not approved)	-	-
	144,794,943	**59,554,331**

Analysis of expenditure awaiting condonation per age classification

Current year	85,240,612	59,554,331
Prior years	59,554,331	88,698,826
	144,794,943	**148,253,157**

Details of irregular expenditure – current year
Summary of irregular expenditure due to deviation from Supply Chain Management (SCM) requirements and tender regulations

Opening balances brought forward from 2006/7	Disciplinary steps taken/criminal proceedings

Summary of irregular expenditure due to deviation from the Supply Chain Management (SCM)		
Opening balance	59,554,331	18,876,137
Irregular expenditure current year	85,240,612	59,554,331
Approved or written off by council	-	(18,876,137)
	144,794,943	**59,554,331**

The appointment of consultants was an urgent deviation of the Supply Chain Management policy, which was reported to National Treasury and which has not been tabled before council.

Rendering of meter reading services		
Opening balance	-	3,411,520
Irregular expenditure current year	-	-
Approved or written off by council	-	(3,411,520)
	-	**-**

The appointment of meter reading services providers was due to the non adherence of the Supply Chain Management policy and tender regulations which have not been tabled before council.

Required quotation for purchases not obtained in terms of SCM policy		
Opening balance	-	976,428
Approved or written off by council	-	(976,428)
	-	**-**

The above consists of various payments made to service providers and suppliers that were not in compliance with the SCM policy, as the required quotation were not obtained from the suppliers.

Non adherence to SCM policy for payments made		
Opening balance	-	3,031,094
Approved or written off by council	-	(3,031,094)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

52. Irregular expenditure (continued)

The above consists of various payments made to service providers and suppliers that were not in compliance with SCM policy.

53. Fruitless and wasteful expenditure

	2013	2012
Opening balance	21,790,081	28,043,473
Add: Fruitless and wasteful expenditure - current year	6,088,261	13,022,400
Less: Amounts approved / written-off	-	(19,275,792)
Less: Amounts recoverable (approved)	-	-
Less: Amounts not recoverable (not approved)	-	-
	27,878,342	**21,790,081**

Analysis of expenditure awaiting condonation per age classification

	2013	2012
Current year	6,088,261	13,022,400
Prior years	21,790,081	8,767,681
	27,878,342	**21,790,081**

Details of fruitless and wasteful expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Interest on arrear payments to creditors	-	6,088,261
Interest on arrear payments towards pension fund	-	173
		6,088,434

Fruitless and wasteful expenditure occurred from prior years	-	28,043,473
Opening balance consists of:	-	-
Interest on loan amounts as a result of exceeding of payment terms - DBSA	-	2,857,599
Interest on outstanding payments towards SALA pension fund	-	334,228
Payment made for inventory which could not be verified	-	1,178,285
Interest on outstanding payments towards Auditor General, Eskom and Telkom	-	6,476,468
Overpayment of Professional Fees	-	1,452,287
Legal fees paid for contractual breach	-	324,533
Payments for services not provided	-	399,000
Fruitless and wasteful for current year	-	6,088,261
Fruitless and wasteful approved or written off by council	-	(19,275,792)
	-	**27,878,342**

The tourism extravaganza is still under investigation.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

53. Fruitless and wasteful expenditure (continued)

Interest on loan amounts as a result of exceeding payment terms	-	-
Opening balance	2,857,599	3,958,030
Fruitless and wasteful current year	64,283	2,857,599
Approved or written off by council	-	(3,958,030)
	2,921,882	**2,857,599**

Penalties on loan amounts as a result of exceeding payment terms	-	-
Opening balance	-	47,209
Fruitless and wasteful current year	-	-
Approved or written off by council	-	(47,209)
	-	**-**

Interest on outstanding payments to pension fund	-	-
Opening balance	334,228	944,774
Fruitless and wasteful current year	-	334,228
Approved or written off by council	-	(944,774)
	334,228	**334,228**

Interest on arrears payments to creditors	-	-
Opening balance	6,476,468	8,207,427
Fruitless and wasteful current year	6,023,805	6,476,468
Approved or written off by council	-	(8,207,427)
	12,500,273	**6,476,468**

Interest on provision for outstanding payments towards water utilisation	-	-
Opening balance	-	2,902,559
Fruitless and wasteful - current year	-	-
Approved or written off by council	-	(2,902,559)
	-	**-**

Legal cost regarding secretarial fees payable to political parties	-	-
Opening balance	-	30,322
Fruitless and wasteful - current year	-	-
Approved or written off by council	-	(30,322)
	-	**-**

Overpayment of Professional Fees	-	-
Opening balance	1,452,287	-
Fruitless and wasteful - current year	-	1,452,287
Approved or written off by council	-	-
	1,452,287	**1,452,287**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

53. Fruitless and wasteful expenditure (continued)

Legal fees paid for contractual breach		
Opening balance	324,533	-
Fruitless and wasteful - current year	-	324,533
Approved or written off by council	-	-
	324,533	**324,533**

Payments for services not provided		
Opening balance	399,000	-
Fruitless and wasteful - current year	-	399,000
Approved or written off by council	-	-
	399,000	**399,000**

Payments made for inventory which could not be verified		
Opening balance	1,178,285	-
Fruitless and wasteful - current year	-	1,178,285
Approved or written off by council	-	-
	1,178,285	**1,178,285**

54. Unauthorised expenditure

Unauthorised expenditure - budget overspending	155,977,193	52,253,161

The above overspending is for individual votes.

55. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviations from supply chain management regulations did occur. These deviations were submitted and noted by Council. A detailed deviation register is available at the municipality for inspection.

56. Capital commitments

Approved and contracted for:		
Infrastructure	26,772,834	50,955,956
Approved and not contracted for:		
Infrastructure	-	58,050,235
	-	-
	26,772,834	**109,006,191**

Infrastructure commitments approved and contracted for will be funded by grants from government.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

57. Loss on disposal of assets

Motor Vehicles	(880,348)	(82,483)
Furniture	(48,133)	-
IT Equipment	(45,730)	-
Office Equipment	(27,099)	-
Plant and Machinery	(86,622)	-
Vehicles	(672,764)	(82,483)
	(880,348)	**(82,483)**

58. Actuarial Gains/(Losses) on Employees benefits

Actuarial Gains/(Losses)	(3,523,000)	(7,366,000)

The above balance is made up as follows;

Long Service Awards - Actuarial gains/(losses)	(847,000)	(743,000)
Post retirement medical benefit - Actuarial gains/(losses)	(2,676,000)	(6,623,000)
	(3,523,000)	**(7,366,000)**

59. Non-Compliance with the MFMA

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

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

Deviations from competitive bidding were approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available to follow a bidding process.

Deviations from competitive bidding were approved on the basis of it being an emergency, even though proper planning would have prevented such emergency.

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

Municipal Finance Management Act section 65 (e)
Creditors were not paid in 30 days as required by the Act.