Xhariep District Municipality
(Registration number : DC 16)
Financial statements
for the year ended June 30, 2013

General Information

Nature of business and principal activities	Administering and making rules of the district, which includes Kopanong Local Municipality, Letsemeng Local Muncipality and Mohokare Local Municipality and Naledi Local Municipality.
Mayoral committee	
Executive Mayor	Cllr M Ntwanambi
Councillors	Speaker:
	Cllr MJ Sehanka
	Members of Mayoral Committee
	Cllr M Ntwanambi
	Cllr MG Modise
	Cllr V Mona
	Cllr V Mona
	Chief Whip:
	Cllr I Mehlomakhulu
	Councillors of the Council:
	Cllr P Dibe
	Cllr NS Jafta
	Cllr MM Khotlele
	Cllr MJ Mohapi
	Cllr Mphore
	Cllr JJ Makitle
	Cllr SA Sola
	Cllr NC Spochter
	Cllr H Shebe
	Cllr AJ Van Rensburg
	Cllr ML Sehloho
Grading of local authority	Low Capacity
Accounting Officer	Mr MM Kubeka (Acting)
Chief Finance Officer (CFO)	Me SY Mgudlwa (Acting)
Registered office	20 Louw Street Trompsburg 9913
Business address	20 Louw Street Trompsburg 9913
Postal address	P.O. Box 136 Trompsburg 9913
Bankers	ABSA Bank Limited

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
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)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

The accounting officer acknowledges that 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 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 June 30, 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. Refer to note number 43 to the Annual Financial Statements.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The financial statements set out on pages 4 to 49, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2013 and were signed on its behalf by:

Accounting Officer
Mr MM Kubeka

Statement of Financial Position as at June 30, 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventory	3	123,671	36,020
Investments	4	-	5,000,000
Receivables from exchange transactions	5	18,186,935	17,392,549
VAT receivable	6	978,803	2,465,385
Cash and cash equivalents	7	1,819,068	11,062,090
		21,108,477	**35,956,044**
Non-Current Assets			
Property, plant and equipment	8	20,084,983	22,038,412
Intangible assets	9	711,774	455,024
		20,796,757	**22,493,436**
Total Assets		**41,905,234**	**58,449,480**
Liabilities			
Current Liabilities			
Finance lease obligation	10	-	362,288
Payables from exchange transactions	11	5,754,722	5,062,748
Unspent conditional grants and receipts	12	1,947,013	1,674,849
Long service bonus	13	234,000	84,000
		7,935,735	**7,183,885**
Non-Current Liabilities			
Long service bonus	13	865,000	916,000
Total Liabilities		**8,800,735**	**8,099,885**
Net Assets		**33,104,499**	**50,349,595**
Net Assets			
Accumulated surplus		33,104,499	50,349,595

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment	14	432,517	366,954
Other income	15	72,623	1,504,275
Gain on disposals of assets	16	(11,199)	21,682
Government grants	17	41,181,836	89,024,626
Interest income	18	446,344	731,392
Total revenue from exchange transactions		**42,122,121**	**91,648,929**
Expenditure			
Employee related costs	19	29,509,823	24,737,030
Remuneration of councillors	20	3,318,055	2,895,433
Depreciation and amortisation	21	3,679,958	2,306,724
Impairment loss/ Reversal of impairments	22	-	18,137
Finance costs	23	286,676	307,741
Debt impairment	24	-	9,388
Repairs and maintenance	25	1,274,737	2,124,674
General Expenses	26	21,297,974	35,805,190
Total expenditure		**59,367,223**	**68,204,317**
Operating (deficit) surplus		**(17,245,102)**	**23,444,612**
(Deficit) surplus for the year		**(17,245,102)**	**23,444,612**
Attributable to:			
Owners of the controlling entity		(17,245,102)	23,444,612

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2011	**26,904,983**	**26,904,983**
Changes in net assets		
Surplus for the year	23,444,612	23,444,612
Total changes	23,444,612	23,444,612
Balance at July 01, 2012	**50,349,601**	**50,349,601**
Changes in net assets		
Surplus for the year	(17,245,102)	(17,245,102)
Total changes	(17,245,102)	(17,245,102)
Balance at June 30, 2013	**33,104,499**	**33,104,499**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		44,176,678	79,897,029
Payments			
Suppliers		(55,736,460)	(62,554,509)
Other cash item		(283,816)	-
		(56,020,276)	(62,554,509)
Net cash flows from operating activities	27	**(11,843,598)**	**17,342,520**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(1,457,514)	(7,474,889)
Proceeds from sale of property, plant and equipment	8	35,386	18,606
Purchase of other intangible assets	9	(472,079)	(240,000)
Purchase of financial assets		-	(5,000,000)
Proceeds from sale of financial assets		5,000,000	5,031,973
Net cash flows from investing activities		**3,105,793**	**(7,664,310)**
Cash flows from financing activities			
Finance lease payments		(664,885)	(397,948)
Interest income		446,344	731,392
Finance costs		(286,676)	(307,741)
Net cash flows from financing activities		**(505,217)**	**25,703**
Net increase/(decrease) in cash and cash equivalents		**(9,243,022)**	**9,703,913**
Cash and cash equivalents at the beginning of the year		11,062,090	1,358,177
Cash and cash equivalents at the end of the year	7	**1,819,068**	**11,062,090**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities and equipment	419,078	54,598	**473,676**	432,517	**(41,159)**	
Fees earned	66,264	(14,134)	**52,130**	72,623	**20,493**	
Other income - (rollup)	-	-	**-**	(11,199)	**(11,199)**	
Government grants	64,875,444	4,443,709	**69,319,153**	41,181,836	**(28,137,317)**	
Interest received - investment	165,425	90,456	**255,881**	446,344	**190,463**	
Total revenue from exchange transactions	**65,526,211**	**4,574,629**	**70,100,840**	**42,122,121**	**(27,978,719)**	
Expenditure						
Personnel	(32,056,776)	2,384,544	**(29,672,232)**	(29,509,823)	**162,409**	
Remuneration of councillors	(3,113,647)	103,945	**(3,009,702)**	(3,318,055)	**(308,353)**	
Depreciation and amortisation	-	-	**-**	(3,679,958)	**(3,679,958)**	
Finance costs	(106,067)	19,600	**(86,467)**	(286,676)	**(200,209)**	
Debt impairment	(7,432)	-	**(7,432)**	-	**7,432**	
Repairs and maintenance	(1,926,855)	(14,000)	**(1,940,855)**	(1,274,737)	**666,118**	
General Expenses	(24,125,287)	(5,906,101)	**(30,031,388)**	(21,297,974)	**8,733,414**	
Total expenditure	**(61,336,064)**	**(3,412,012)**	**(64,748,076)**	**(59,367,223)**	**5,380,853**	
Deficit before taxation	**4,190,147**	**1,162,617**	**5,352,764**	**(17,245,102)**	**(22,597,866)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**4,190,147**	**1,162,617**	**5,352,764**	**(17,245,102)**	**(22,597,866)**	
Reconcilation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventory	-	-	**-**	123,671	**123,671**	
Receivables from exchange transactions	-	-	**-**	18,186,939	**18,186,939**	
VAT receivable	-	-	**-**	978,803	**978,803**	
Cash and cash equivalents	-	-	**-**	1,819,068	**1,819,068**	
	-	**-**	**-**	**21,108,481**	**21,108,481**	
Non-Current Assets						
Property, plant and equipment	3,757,606	805,389	**4,562,995**	20,084,983	**15,521,988**	
Intangible assets	-	-	**-**	711,774	**711,774**	
	3,757,606	**805,389**	**4,562,995**	**20,796,757**	**16,233,762**	
Total Assets	**3,757,606**	**805,389**	**4,562,995**	**41,905,238**	**37,342,243**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	-	-	**-**	5,754,722	**5,754,722**	
VAT payable	-	2,378,709	**2,378,709**	-	**(2,378,709)**	
Unspent conditional grants and receipts	-	-	**-**	1,947,013	**1,947,013**	
Long service bonus	-	-	**-**	234,000	**234,000**	
	-	**2,378,709**	**2,378,709**	**7,935,735**	**5,557,026**	
Non-Current Liabilities						
Long service bonus	-	-	**-**	865,000	**865,000**	
Total Liabilities	**-**	**2,378,709**	**2,378,709**	**8,800,735**	**6,422,026**	
Net Assets	**3,757,606**	**(1,573,320)**	**2,184,286**	**33,104,503**	**30,920,217**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	3,757,606	(1,573,320)	**2,184,286**	37,166,368	**34,982,082**	
Undefined Difference	**-**	**-**	**-**	**(4,061,865)**	**(4,061,865)**	
Total Net Assets	**3,757,606**	**(1,573,320)**	**2,184,286**	**37,166,368**	**34,982,082**	

Accounting Policies

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The 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 in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables, Loans and Receivables

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

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

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Long Service Bonus

The present value of the long service bonus 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 long service bonus 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 long service bonus obligation. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Effective interest rate and deferred payment terms

The entity used the prime interest rate adjusted for rates used by main suppliers or creditors to discount future cash flows.

1.2 Property, plant and equipment

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

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

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

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

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.

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 shall be depreciated separately.

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

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

Subsequent measurement - Cost model
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

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

Land is not depreciated and depreciation commence when the asset is ready for intended use.

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

Item	Estimated useful life
Buildings	30
Security System	5
Plant and machinery	5
Furniture and fittings	7 - 10
Motor vehicles	5 - 7
Office equipment	3 - 7
Computer equipment	3 - 7

Accounting Policies

1.2 Property, plant and equipment (continued)

Finance lease assets

• Office equipment	The shorter of asset's useful life or the lease term
• Other assets	The shorter of asset's useful life or the lease term

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

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

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

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

Items of 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.

1.3 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.

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.

1.3 Intangible assets (continued)

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	3 - 5 years
Right to use land	The shorter of right to use land or useful life

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.

1.4 Financial instruments

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

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

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

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

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

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

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

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

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

1.4 Financial instruments (continued)

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.

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;

1.4 Financial instruments (continued)

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

Classification

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

Class	Category
Loan1	Financial asset measured at amortised cost
Loan2	Financial asset measured at amortised cost
Loan3	Financial asset measured at amortised cost
Other receivables1	Financial asset measured at amortised cost
Other receivables2	Financial asset measured at amortised cost
Other financial asset1	Financial asset measured at fair value
Other financial asset2	Financial asset measured at fair value

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

Class	Category
Loan1	Financial liability measured at amortised cost
Loan2	Financial liability measured at amortised cost
Loan3	Financial liability measured at amortised cost
Other receivables1	Financial liability measured at amortised cost
Other receivables2	Financial liability measured at amortised cost
Other financial liability1	Financial liability measured at fair value
Other financial liability2	Financial liability measured at fair value

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

Class	Category
Residual interest1	Measured at fair value
Residual interest2	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.

Accounting Policies

1.4 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.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.5 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.

Accounting Policies

1.5 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

1.6 Inventory

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

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

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

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

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

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

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

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

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

Accounting Policies

1.7 Employee benefits

Short-term employee benefits

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

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

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

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

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

Post-employment benefits: Defined contribution plans

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

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

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

1.8 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.

1.8 Provisions and contingencies (continued)

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.

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

Provisions are not recognised for future operating deficits.

Onerous contracts

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

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

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

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

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

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

1.8 Provisions and contingencies (continued)

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

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

1.9 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 entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Measurement

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

Sale of goods

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

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

Interest

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:

1.9 Revenue from exchange transactions (continued)

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

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

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange.Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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.

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

Measurement

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

Government grants

Government grants are recognised as revenue when:

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

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

Conditions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other Grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

1.11 Investment income

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

Accounting Policies

1.12 Comparative figures

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

The comparative figures have been restated.

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Detailed disclosures were made in the notes to the financial statements as required by the MFMA.

1.14 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.

Detailed disclosures were made in the notes to the financial statements as required by the MFMA.

1.15 Irregular expenditure

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.

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.

Detailed disclosures were made in the notes to the financial statements as required by the MFMA.

1.16 Use of estimates

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

Accounting Policies

1.17 Presentation of currency

These financial statements are presented in South African Rand.

All figures presented in the annual financial statements have been rounded to the nearest Rand.

1.18 Offsetting

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

1.19 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.

1.20 Going concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

The municipality cannot continue to operate without receiving government grants. However the going concern assumption is based on the fact that according to DoRA the municipality will continue to receive government grants for the next three years.

1.21 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 information on whether resources were obtained and used in accordance with the legally adopted budget.

The 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.

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

Comparative information is not required.

1.22 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 local sphere of government are considered to be related parties.

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

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Accounting Officer and Council members as key management per the definition of the financial reporting standard.

Close 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.

Accounting Policies

1.23 Impairment of assets

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

Irrespective of whether there is any indication of impairment, the municipality also:
tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

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	April 01, 2012	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 24: Presentation of Budget Information in the Financial Statements	April 01, 2012	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 103: Heritage Assets	April 01, 2012	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 21: Impairment of non-cash-generating assets	April 01, 2012	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 26: Impairment of cash-generating assets	April 01, 2012	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 104: Financial Instruments	April 01, 2012	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.

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 July 01, 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 25: Employee benefits	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

• GRAP 105: Transfers of functions between entities under common control	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 106: Transfers of functions between entities not under common control	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 107: Mergers	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 20: Related parties	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• IGRAP 11: Consolidation – Special purpose entities	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 7 (as revised 2010): Investments in Associates	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 01, 2014	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 1 (as revised 2012): Presentation of Financial Statements	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 7 (as revised 2012): Investments in Associates	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 12 (as revised 2012): Inventories	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 13 (as revised 2012): Leases	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 16 (as revised 2012): Investment Property	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 17 (as revised 2012): Property, Plant and Equipment	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• IGRAP16: Intangible assets website costs	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	April 01, 2013	It is unlikely that the standard will have a material impact on the municipal entity's annual financial statements.

3. Inventory

Inventory - Stationery	70,829	30,584
Inventory - Cleaning material	52,842	5,436
	123,671	**36,020**
Inventories recognised as an expense during the year	-	84,082

Inventory pledged as security

No inventory was pledged as security for any financial laibility.

Notes to the Financial Statements

Figures in Rand	2013	2012

4. Investments

Held to maturity financial assets

Held-to-maturity investments maturing 4 to 12 months	-	5,000,000
Held to maturity investments comprises a fixed deposit held at Nedbank with account number 7662022528 with an interest rate of 5.91%.		

Total Investments

At amortised cost	-	5,000,000

5. Receivables from exchange transactions

Trade debtors	1,295,219	850,856
Accrued Income	16,617,028	16,220,028
Prepaid Expense	28,707	38,237
Credit cards	1,710	1,710
Car loans receivable	94,592	87,160
Other debtors	149,679	194,558
	18,186,935	**17,392,549**

Fair value of trade and other receivables

Building and Facilities Rentals: Ageing

Current (0 – 30 days)	100,484	40,053
31 - 60 Days	31,103	81,132
61 - 90 Days	26,675	40,558
91 - 120 Days	1,554	92,032
121 - 150 Days	26,074	120,484
151 - 180 Days	2,106	92,953
+ 180 Days	743,610	32,959
	931,606	**500,171**

Summary of Debtors by Customer Classification - National Provincial and Local Goverment

Current (0 – 30 day	94,194	32,505
31 - 60 Days	31,661	81,055
61 - 90 Days	27,355	40,558
91 - 120 Days	2,673	92,032
121 - 150 Days	26,353	120,483
151 - 180 Days	2,384	92,953
+ 180 Days	1,171,891	32,959
Less: Provision for doubtful debts	(3,040)	(3,040)
	1,353,471	**489,505**

Summary of Debtors by Customer Classification - Industrial/Commercial

Current (0 – 30 days)	505	7,548
31 - 60 Days	1,718	76
61 - 90 Days	13,640	-
91 - 120 Days	2,609	-
121 - 150 Days	279	-
151 - 180 Days	278	-
+ 180 Days	432,009	-
	451,038	**7,624**

Trade and other receivables past due but not impaired

Notes to the Financial Statements

Figures in Rand	2013	2012

5. Receivables from exchange transactions (continued)

Trade and other receivables from exchange transactions which were past due where not impaired at year end due to the following.

Kopanong Local Municipality is indebted to Xhariep District Municipality to an amount equal to impaired debt less the subsequent receipts received	-	491,572

Reconciliation of provision for impairment of trade and other receivables

Balance at the beginning of the year (as previously stated)	97,049	90,201
Contribution to / (from) provision	-	6,848
Bad debts written off against provision	-	-
	97,049	**97,049**

Debtors were disclosed at nominal value net of provision for doubtful debts.

6. VAT receivable

VAT receivable	978,803	2,465,385

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

Figures in Rand	2013	2012

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,603	30
Bank balances	1,817,465	5,928,818
Short-term deposits	-	5,133,242
	1,819,068	**11,062,090**

The municipality had the following bank accounts

Current Account (Primary Bank Account)	Bank statement balances			Cash book balances		
	June 30, 2013	June 30, 2012		June 30, 2013	June 30, 2012	
ABSA BANK - Brandwag Branch - Account Number - 4053628182	1,817,465	5,929,718	-	1,817,465	5,928,818	-
Standard Bank - Notice deposit - Account number - 24853260-003	-	5,123,264	-	-	5,123,264	-
Standard Bank - Notice deposit - Account number - 24853260-002	-	9,978	-	-	9,978	-
Total	**1,817,465**	**11,062,960**	**-**	**1,817,465**	**11,062,060**	**-**

Notes to the Financial Statements

Figures in Rand	2013	2012

8. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	16,764,703	(3,562,483)	13,202,220	16,659,552	(3,079,107)	13,580,445
Plant and machinery	2,107,870	(521,479)	1,586,391	2,096,675	(101,969)	1,994,706
Furniture and fittings	1,971,752	(795,914)	1,175,838	1,870,055	(552,323)	1,317,732
Motor vehicles	1,143,971	(573,901)	570,070	1,306,556	(466,805)	839,751
Office equipment	1,435,196	(527,858)	907,338	582,404	(215,956)	366,448
Computer equipment	2,229,056	(1,731,098)	497,958	1,842,379	(976,469)	865,910
Finance lease assets	1,281,358	(1,281,358)	-	1,281,358	(928,338)	353,020
Security System	2,879,313	(734,145)	2,145,168	2,879,313	(158,913)	2,720,400
Total	**29,813,219**	**(9,728,236)**	**20,084,983**	**28,518,292**	**(6,479,880)**	**22,038,412**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	13,580,445	105,152	-	(483,377)	13,202,220
Plant and machinery	1,994,706	11,195	-	(419,510)	1,586,391
Furniture and fittings	1,317,732	101,696	-	(243,590)	1,175,838
Motor vehicles	839,751	-	(35,386)	(234,295)	570,070
Office equipment	366,448	852,793	-	(311,903)	907,338
Computer equipment	865,910	386,678	-	(754,630)	497,958
Finance lease assets	353,020	-	-	(353,020)	-
Security System	2,720,400	-	-	(575,232)	2,145,168
	22,038,412	**1,457,514**	**(35,386)**	**(3,375,557)**	**20,084,983**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings	12,578,590	1,475,030	-	(473,175)	-	13,580,445
Plant and machinery	-	2,096,675	-	(101,969)	-	1,994,706
Furniture and fittings	923,214	614,351	-	(217,502)	(2,331)	1,317,732
Motor vehicles	1,081,066	-	-	(241,315)	-	839,751
Office equipment	462,083	52,325	-	(146,174)	(1,786)	366,448
Computer equipment	1,025,146	357,195	(18,606)	(483,804)	(14,021)	865,910
Finance lease asset	707,006	-	-	(353,986)	-	353,020
Other property, plant and equipment	-	2,879,313	-	(158,913)	-	2,720,400
	16,777,105	**7,474,889**	**(18,606)**	**(2,176,838)**	**(18,138)**	**22,038,412**

Restrictions on title

The land on which the Administrative Building of Xhariep District Municipality is built is owned by Kopanong Local Municipality. As per the contract to use the land, certain events should take place before the land can be sold to Xhariep District Municipality.

9. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,252,257	(540,483)	711,774	780,177	(325,153)	455,024

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	455,024	472,079	(215,329)	711,774

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	344,908	240,000	(129,884)	455,024

10. Finance lease obligation

	2013	2012
Minimum lease payments due		
- within one year	-	432,927
	-	432,927
less: future finance charges	-	(70,639)
Present value of minimum lease payments	**-**	**362,288**
Present value of minimum lease payments due		
- within one year	-	362,288

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

The average lease term was 3 years.

The municipality's obligations under finance leases were secured by the lessor's charge over the leased assets.

11. Payables from exchange transactions

	2013	2012
Other creditors	104,577	103,037
Staff bonuses accrual	620,235	664,988
Staff leave accrual	2,420,280	1,659,720
Trade creditors	2,609,630	2,635,003
	5,754,722	**5,062,748**

The fair value of trade and other payables approximates their carrying amounts.

12. Unspent conditional grants and receipts

Notes to the Financial Statements

Figures in Rand	2013	2012

12. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Implementation Grant	227,944	116,476
THETHA Grant	36,080	36,080
Provincial Infrastructure Grant	204,193	204,193
EPWP Incentive Grant	(45,040)	151,644
Finance Management Grant	403,152	45,772
Motheo District Municipality Disestablishment Grant	1,120,684	1,120,684
	1,947,013	**1,674,849**

See note 17 for reconciliation of grants from other spheres of government. No grants were withheld due to unfulfilled conditions.

Notes to the Financial Statements

Figures in Rand	2013	2012

13. Long service bonus

Non-current liabilities	865,000	916,000
Current liabilities	234,000	84,000
	1,099,000	**1,000,000**

The long service awards liability arises from XDM being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC . This agreement is effective 1 July 2010.

The long service awards plan is a defined benefit plan. At year end 71 (2012 - 73) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 234 000 (2012 - R 503 000) whereas the interest-cost for the next year is estimated to be R235 000 (2012 - R 79 000).

The key assumptions utilised by management in determining the Long serviceawards liability are listed below:

Discount Rate	7%	8%
Salary Increase	7%	7%
Net Discount rate	1%	1%
Mortality	SA85-90	SA85-90
Normal Retirement age	63	63

Present value of unfunded obligations:

Present value of unfunded obligations at the beginning of the year	-	-
Fair value of plan assets	-	-
Unrecognised past service costs	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	1,099,000	1,000,000
Net liability / (asset)		
	1,099,000	**1,000,000**

Reconciliation of present value of fund obligations

Present value of fund obligations at the beginning of the year	1,000,000	602,890
Total expenses	-	-
Current service costs	503,000	405,000
Long service awards paid	(54,456)	(31,108)
Interest costs	79,000	47,000
Actuarial gains / (losses)	(428,544)	(23,782)
	1,099,000	**1,000,000**

The effect of a 1% increase in the salary cost inflation assumption will lead to a 9.8% increase in the accrued liability at 30 June 2013.

The effect of a 1% decrease in the salary cost inflation assumption will lead to a 8.5% decrease in the accrued liability at 30 June 2013.

Notes to the Financial Statements

Figures in Rand	2013	2012

14. Revenue

	2013	2012
Rental of facilities and equipment	432,517	366,954
Fees earned	72,623	1,504,275
Gain on disposals of assets	(11,199)	21,682
Government grants and subsidies	41,181,836	89,024,626
Interest earned	446,344	731,392
	42,122,121	**91,648,929**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2013	2012
Rental of facilities and equipment	432,517	366,954
Fees earned	72,623	1,504,275
Gain on disposals of assets	(11,199)	21,682
Government grants and subsidies	41,181,836	89,024,626
Interest earned	446,344	731,392
	42,122,121	**91,648,929**

15. Other income

	2013	2012
Donations	-	1,466,136
Parking income	51,088	15,741
Tender income	21,535	22,398
	72,623	**1,504,275**

16. Gain on disposal of assets

	2013	2012
Gain on disposal of assets	(11,199)	21,682

Notes to the Financial Statements

Figures in Rand	2013	2012

17. Government grants and subsidies

Municipal Systems Implementation Grant

Balance unspent at beginning of year	116,476	69,319
Current-year receipts	1,000,000	790,000
Conditions met - transferred to revenue	(888,532)	(742,843)
	227,944	**116,476**

The purpose of the grant is to assist municipalitities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the local Government Municipal Systems Act of 2000.

THETHA Grant

Balance unspent at beginning of year	36,080	36,080

Grant will be used for capacity building of the municipality

Provincial Infrastructure Grant (PIG)

Balance unspent at beginning of year	204,193	250,050
Conditions met - transferred to revenue	-	(45,857)
	204,193	**204,193**

The grant is used to subsidise municipal capital budget to eradicate backlogs in municipal infrastructure. The grant was specifically allocated for the completion of the sewerage treatment network which will later be transfered to Kopanong Local Municipalit at no cost.

EPWP

Balance unspent at beginning of year	151,644	-
Current-year receipts	1,045,000	357,000
Conditions met - transferred to revenue	(1,241,684)	(205,356)
	(45,040)	**151,644**

The purpose of the grant is to expand job creation programs.

Financial Management Grant (FMG)

Balance unspent at beginning of year	45,772	-
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(892,620)	(1,204,228)
	403,152	**45,772**

The purpose of the grant is to promote and support reforms to financial management and implementation of the Municipal Finance Management Act (MFMA)

Notes to the Financial Statements

Figures in Rand	2013	2012

17. Levies (continued)

Motheo District Municipality Disestablishment Grant

Balance unspent at beginning of year	1,120,684	-
Current-year receipts	-	36,803,777
Conditions met - transferred to revenue	-	(35,683,093)
	1,120,684	**1,120,684**

The purpose of the grant is to provide general assistance to local municipalities within the district as well as completing specific infrastructure projects on behalf of Naledi Local Municipality.

The financial assistance grant has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.

Equitable Share

Current-year receipts	22,762,000	21,143,250
Conditions met - transferred to revenue	(22,762,000)	(21,143,250)
	-	**-**

Equitable share has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.

COGTA and Treasury Financial Assistance Grant

Current-year receipts	15,000,000	30,000,000
Conditions met - transferred to revenue	(15,000,000)	(30,000,000)
	-	**-**

The financial assistance grant has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.

Changes in level of government grants

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

18. Interest earned

Interest earned		
Current bank account	3,720	7,079
Outstanding receivables	46,215	97,462
Money market and call accounts	393,083	623,655
Electricity deposit	3,326	3,196
	446,344	**731,392**

Notes to the Financial Statements

Figures in Rand	2013	2012

19. Employee related costs

Bonuses under remuneration	1,431,376	1,175,246
Employee related costs - Salaries and Wages	20,359,733	17,206,011
Employee related costs - contributions for UIF, pensions and medical aids	4,686,895	3,710,754
Housing benefits and allowances	159,150	147,205
Travel, motor car, accommodation, subsistence and other allowances	2,872,669	2,497,814
	29,509,823	**24,737,030**

Remuneration of the Chief Financial Officer		
Annual Remuneration	640,621	422,612
Bonuses under remuneration	58,895	9,625
Travel, motor car, accomodation, subsistence and other allowances	164,548	47,391
Contributions to UIF, Medical and Pension Funds	119,217	80,485
	983,281	**560,113**

Remuneration of the Municipal Manager		
Annual Remuneration	715,087	635,348
Travel, motor car, accomodation, subsistence and other allowances	146,486	463,934
Bonuses under remuneration	68,683	76,512
Contributions to UIF, Medical and Pension Funds	136,225	164,071
	1,066,481	**1,339,865**

Remuneration of the Executive Director: Corporate Services		
Annual Remuneration	620,666	618,611
Bonuses under remuneration	-	51,879
Travel, motor car, accomodation, subsistence and other allowances	147,520	247,180
Contributions to UIF, Medical and Pension Funds	25,809	28,525
	793,995	**946,195**

Remuneration of the Executive Director: Planning & Development		
Annual Remuneration	638,270	407,435
Bonuses under remuneration	27,838	13,478
Travel, motor car, accomodation, subsistence and other allowances	194,542	135,054
Contributions to UIF, Medical and Pension Funds	103,564	65,194
	964,214	**621,161**

20. Remuneration of councillors

Executive Mayor	2,167,108	597,999
Mayoral Committee Members	146,372	1,003,293
Speaker	519,131	298,581
Councillors	485,444	995,560
	3,318,055	**2,895,433**

In-kind benefits

The Mayor and Speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

The salaries and allowances of the councillors are within the limits as prescribed by the Remuneration of Public Office Bearers Act, 1998 (No. 20 of 1998).

Notes to the Financial Statements

Figures in Rand	2013	2012

21. Depreciation and amortisation

Property, plant and equipment	3,111,609	1,822,852
Finance leased assets	353,020	353,987
Intangible assets	215,329	129,885
	3,679,958	**2,306,724**

22. Impairment of assets

Impairments		
Property, plant and equipment	-	18,137

Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]

23. Finance costs

Late payment of creditors	45,345	41,349
Finance lease liabilities	241,331	266,392
	286,676	**307,741**

24. Debt impairment

Contribution to debt impairment	-	6,848
Bad debt write off	-	2,540
	-	**9,388**

25. Repairs and maintenance

Furniture and equipment	347,377	321,659
Website	480,000	209,000
Computer equipment	38,147	36,285
Building	151,055	1,430,532
Motor vehicles	234,735	132,634
	1,251,314	**2,130,110**

Notes to the Financial Statements

Figures in Rand	2013	2012

26. General expenses

Advertising	365,860	566,290
Auditors remuneration	1,730,112	1,215,847
Bank charges	89,014	48,822
Bursaries	36,318	121,488
Conferences and delegations	67,296	90,042
Consulting fees	2,842,751	3,502,707
Disaster mangement	374,384	226,986
Disaster mangement	-	391,337
Donations - Upgrade Cemetry	3,400	296,426
Donations - Upgrade Sewer Network	-	45,857
Entertainment	166,010	405,573
Finance Assistance Letsemeng - IT Support	1,266,376	-
Financial Assistance - Naledi Outfall Sewer	-	3,459,023
Financial Assistance Bulk Water Purchases	-	7,023,780
Financial Assistance Naledi - IT Support	1,137,000	3,093,504
Financial Assistance Naledi - Upgrading of streets	440,732	2,346,960
Financial asssistance - Audit Fees	-	2,466,185
Fuel and oil	309,386	380,187
Legal expenses	101,436	75,766
Licence fees - computers	536,361	331,696
Licence fees - vehicles	10,538	930
Membership fees	459,911	215,898
Other Expenses	2,218,027	799,876
Training	361,873	1,794,359
Postage	2,335	2,213
Printing and stationery	376,082	483,527
Security costs	1,767,052	11,285
Staff welfare	-	5,200
Subscriptions	36,327	33,243
Telephone costs	671,100	977,963
Travel - local	4,236,574	4,918,139
Wages - EPWP	1,228,694	205,356
Water and electricity	463,025	268,725
	21,297,974	**35,805,190**

Notes to the Financial Statements

Figures in Rand	2013	2012

27. Cash (used in) generated from operations

(Deficit) surplus	(17,245,102)	23,444,612
Adjustments for:		
Depreciation and amortisation	3,679,958	2,306,724
Finance costs - Finance leases	162,528	-
Interest income	(446,344)	(731,392)
Finance costs	286,676	307,741
Impairment deficit	-	18,137
Debt impairment	-	9,388
Movements in long service awards provisions	150,000	397,118
Changes in working capital:		
Inventory	(87,651)	(36,020)
Receivables from exchange transactions	(794,383)	(8,943,412)
Consumer debtors	-	(9,388)
Payables from exchange transactions	691,974	(160,492)
VAT	1,486,582	(579,896)
Unspent conditional grants and receipts	272,164	1,319,400
	(11,843,598)	**17,342,520**

28. Auditors' remuneration

Fees	1,730,112	1,215,847

29. Commitments

Capital and current commitments

Approved and contracted for		
• Other assets	12,709	1,435,766
• Current expenditure	1,315,762	4,633,033
	1,328,471	**6,068,799**
Approved but not yet contracted for		
• Other assets	-	-
The capital expenditure will be financed from:		
Own resources	1,328,471	6,068,799

Operating leases - as lessor

Minimum lease payments due		
- Payable within one year	74,925	71,011
- Payable within 1 - 5 years	-	-
- Payable later than 5 years	-	-
	74,925	**71,011**

Operating lease receipts represent rentals received by the municipality for the use of its administrative and other office space.

Lease terms are as follows:
Lease 1 - Initial period of 36 months, renewable annually on the 1st July with a 15% escalation.
Lease 2 - Initial period of 6 months, escalation on the 1st December. Expiry date 15 November 2013.

A portion of the Municipality's buildings are held to generate rental income. At year end the rental contracts for the 2012 / 2013 (2011/2012) financial year had not yet been concluded.

Notes to the Financial Statements

Figures in Rand	2013	2012

30. Contingencies

Contingent liabilities

Contingent liabilities 2013

Matter description:

A service provider appointed to perform a VAT review for the period 1 July 2009 to 30 June 2011 has instituted a claim against the Municipality for breach of cotract and non-payment of professional fees.

Financial Implication:

The probable loss is R93,254

Contingent liabilities 2012

Matter description:

A service provider appointed to perform a VAT review for the period 1 July 2009 to 30 June 2011 has instituted a claim against the Municipality for breach of cotract and non-payment of professional fees.

Financial Implication:

The probable loss is R70,000

Contingent assets

2013

The Municipality had no contingent assets at the reporting date.

2012

The Municipality had no contingent assets at the reporting date.

31. Related parties

Relationships	
Post employment benefit plan for employees of municipality and/or other related parties.	Refer to note 13 for the details.
Compensation to Councillors and other key management	Refer to note 19 and 20 for the details.

Related party transactions

Purchases from related parties		
Mamello Trading	-	50,000

A Councillor is member in Mamello Trading CC. All the transactions with Mamello Trading CC were at arm's length (no discounts or premiums) except for normal trade discounts were applicable.

Notes to the Financial Statements

32. Risk management

Liquidity risk

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

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

Interest rate risk

The municipality's interest rate risk arises from finance lease liabilities, credit cards & investments. These are issued at variable rates and expose the Municipality to cash flow interest rate risk. Financial instruments that are issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

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

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

Financial instrument	2013	2012
ABSA Bank: Current Account	1,817,465	5,928,818
ABSA Bank: Credit Cards	1,710	1,710
Trade and other receivables	1,641,010	1,488,977
Nedbank	-	5,000,000
Standard Bank	-	5,123,264
Standard Bank	-	9,978
Finance leases	-	362,288

Price risk

The municipality has no exposure to changes in price risk

33. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

34. Unauthorised expenditure

Opening balance	5,483,481	6,538,442
Unauthorised expenditure current year	3,478,030	1,524,583
Approved by Council	-	(2,579,544)
	8,961,511	**5,483,481**

The unauthorised expenditure relates to unbudgeted capital expenditure incurred under the planning and development vote during the financial year.	3,478,030	1,524,583

Full report is to be given to Council for condoment at the next possible Council meeting.

Notes to the Financial Statements

Figures in Rand	2013	2012

35. Fruitless and wasteful expenditure

Opening balance	104,259	62,861
Fruitless and wasteful expenditure current year	31,377	41,398
	135,636	**104,259**

The municipality early redeemed a fixed deposit during the financial year and forfeited interest income amounting to R31,377 (2012 - R30,379).

Interest and penalties late payment of suppliers R31,377 (2012 - R11,019).

No disciplinary proceedings have been instituted as this was an operational matter.

Interest and penalties late payment of suppliers	31,377	11,019
Penalty interest early redemption of investment	-	30,379
	31,377	**41,398**

No disciplinary proceedings have been instituted as the instances were incurred as an operational matter.

36. Irregular expenditure

Opening balance	12,817,074	13,200,291
Add: Irregular Expenditure - current year	5,694,842	10,465,869
Less: Amounts written off	-	(10,849,086)
	18,511,916	**12,817,074**

The breakdown of the above expenditure is as follows:

Tax clearance certificates not obtained as per SCM policy	735,214	1,101,262
Tender process not followed as required by SCM policy	3,306,094	5,718,079
Insufficient quotations obtained as required by SCM policy	1,653,534	3,646,528
	5,694,842	**10,465,869**

Details of irregular expenditure – current year

Tax clearance certificates not obtained as per SCM policy	The expenditure was identified during the current financial year and still needs to be investigated.	735,214
Tender process not followed as required by SCM policy	The expenditure was identified during the current financial year and still needs to be investigated.	3,306,094
Insufficient quotations obtained as required by SCM policy	The expenditure was identified during the current financial year and still needs to be investigated.	1,653,534
		5,694,842

37. In-kind donations and assistance

No in-kind donations and assistance were received during the current financial year.

Notes to the Financial Statements

Figures in Rand	2013	2012

38. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2013	2012
Opening balance	-	32,829
Current year subscription / fee	256,816	210,389
Amount paid - current year	(256,816)	(243,218)
	-	**-**

Audit fees

	2013	2012
Opening balance	3,639	369,333
Current year subscription / fee	1,732,015	1,382,292
Amount paid - current year	(1,730,112)	(1,378,653)
Amount paid - previous years	(3,639)	(369,333)
	1,903	**3,639**

PAYE and UIF

	2013	2012
Opening balance	-	332,880
Current year subscription / fee	5,345,054	5,056,025
Amount paid - current year	(5,345,054)	(5,056,025)
Amount paid - previous years	-	(332,880)
	-	**-**

Pension and Medical Aid Deductions

	2013	2012
Opening balance	-	9,373
Current year subscription / fee	2,000,125	1,986,131
Amount paid - current year	(2,000,125)	(1,986,131)
Amount paid - previous years	-	(9,373)
	-	**-**

VAT

	2013	2012
VAT receivable	978,803	2,465,385

VAT output payables and VAT input receivables are shown in note 6

Figures in Rand	2013	2012

38. Leases (Effects of transitional provisions) (continued)

Non-compliance with MFMA

Municipal Finance Management Act Section 15
The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget.

Supply chain management regulations 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 at least three different prospective providers as required.

Preferential Procurement Policy Framewrok Act, 2000 2(a) and Supply chain management regulation 28(1)(a)
The preference point system was not applied in all procurement of goods and services above R30,000, as required..

Municipal Finance Management Act Section 32(2) and 32(4)
Fruitless and wasteful expenditure incurred was not recovered from liable persons as required.
Reports detailing the fruitless and wasteful expenditure incurred were not tabled to MEC, Auditor-General and Council.

Supply chain management regulations 43 and 44
Awards were made to service providers whose tax matters had not been declared by the South African Revenue Services to be inorder as required.

Awards were made to service providers whose directors are persons in service of other state institutions in contravention of the requirements.

Municipal Finance Management Act Section 53(1)(c)
The Service Delivery and Budget Implementation Plan was not approved by the Mayor within 28 days after the approval of the budget.

Municipal Finance Management Act Section 62(1)(d)
The accounting officer failed to take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

Municipal Finance Management Act Section 63(2)(a)
An adequate management, accounting and information system which accounts for assets was not in place, as required.

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

Municipal Finance Management Act Section 116(2)(c)
The contract performamce measures and methods applied to measure contract performance was insufficient and did not ensure effective contract management as required.

Municipal Finance Management Act Section 122
The fiancial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements.

39. Actual operating expenditure versus budgeted operating expenditure

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

40. Actual capital expenditure versus budgeted capital expenditure

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

Figures in Rand	2013	2012

41. Going concern

2013

During the compilation of the annual financial statements management has assessed the appropriateness of the going concern principle. Management have identified one potential factor which may impact on the ability of XDM to continue as a going concern.

Financial Assistance from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements:

Management has budgeted for Intergovernmental grants amounting to R88,000,000 for the 2013/2014 financial year. Included in this total is an amount of R59,000,000 being financial assistance which is to be received from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements.

2012

During the compilation of the annual financial statements management has assessed the appropriateness of the going concern principle. Management have identified one potential factor which may impact on the ability of XDM to continue as a going concern.

Financial Assistance from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements:

Management has budgeted for Intergovernmental grants amounting to R56,722,767 for the 2012/2013 financial year. Included in this total is an amount of R30,000,000 being financial assistance which is to be received from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements. The Xhariep District Municipality has received a written confirmation from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements that the funding will be received during November 2012.

42. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below except for the other receivables from non-exchange transactions which are not a contractual instrument:

2013

	Loans and receivables	Total
Trade and other receivables	1,641,010	1,641,010
Other receivables from non-exchange transactions	16,332,894	16,332,894
Cash and cash equivalents	1,819,068	1,819,068
	19,792,972	**19,792,972**

2012

	Loans and receivables	Total
Other financial assets	16,541,693	16,541,693
Trade and other receivables	850,857	850,857
Other receivables from non-exchange transactions	16,541,693	16,541,693
Cash and cash equivalents	11,062,090	11,062,090
	44,996,333	**44,996,333**

43. Financial liabilities by category

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

Notes to the Financial Statements

Figures in Rand	2013	2012

43. Financial liabilities by category (continued)

2013

	Financial liabilities at amortised cost	Total
Finance lease obligation - non current	-	-
Other financial liabilities	1,715,982	1,715,982
Trade and other payables	2,609,630	2,609,630
	4,325,612	**4,325,612**

2012

	Financial liabilities at amortised cost	Total
Finance lease obligation - current	362,288	362,288
Other financial liabilities	2,427,745	2,427,745
Trade and other payables	2,635,003	2,635,003
	5,425,036	**5,425,036**

Notes to the Financial Statements

Figures in Rand	2013	2012

44. Retirement Benefit Information

Defined contribution plan

Defined contribution plan Xhariep District Municipality and its employees contribute to various funds which provide benefits to such employees. The retirement benefit plan is subject to the Pension Funds Act of 1956, with pensions being calculated on the final pensionable remeneration paid. Current contributions are charged against operating income. No actuarial information was available for the funds listed below on the preparation of financial statements.	2,781,029	2,322,607

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

- Free State Municipal Pension Fund
- SAMWU National Provident Fund
- Municipal Employees Pension Fund
- South African Local Authorities Pension Fund