



THABAZIMBI LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

General Information

Legal form of entity

Local Municipality

Mayoral committee

Executive Mayor

Cllr. P.A Mosito

Cllr.S.G Matsietsa (Speaker)

Cllr M.D. Tlhabadira(Chief Whip)

Councillors

Cllr.B.N Maguga(Member of MPAC)

Cllr. M.L Sikhwari(Ward councillor and member of IPEDC)

Cllr. D.R Daniels(Ward councillor and member of IPEDC)

Cllr.S.A Khumalo(Member of MPAC)

Cllr D.A Moatshe(Member of MPAC)

Cllr F. Loots(Member of MPAC)

Cllr. S.G. Lerumo (Member of community and social Service Committee)

Cllr. R.C Du Preez(Member of MPAC)

Cllr. K.R Mokwena(Member of MPAC)

Cllr. P Strydom (Member of Finance Committee)

Cllr. M Moselane(Ward councillor and member of IPEDC)

Cllr. J.M. Fisher(Member of community and social Service Committee)

Cllr M.E Semadi (Chairperson of Finance Committee)

Cllr. L.H. Joubert (Executive Committee Member and Chairperson of community and social Service Committee)

Cllr. R.A Ramogale (Chairperson of MPAC)

Cllr. P.A. Scruton(Representative of District Council)

Cllr. S.E. Sikwane(Representative of District Council)

Cllr. R.C. Du Preez(Member of MPAC)

Cllr. K.R. Mokwena(Member of MPAC)

Cllr.T.Mkansi(Executive committee and Chairperson of IPEDC)

Thabazimbi local municipality

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General Information

Grading of local authority	Low Capacity Municipality
Registered office	7 Rietbok street Thabazimbi 0380
Business address	Private bag X 530 Thabazimbi 0380
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa
Telephone number	(014) 777 1525
Fax number	(014) 777 1531
Email address	info@thabazimbi.org.za

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
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)
ASB	Accounting Standard Board
D.W.A.F.	Department of Water affairs and Forestry
EPWPIG	Expanded Public Works Programme Incentive Grant

Thabazimbi local municipality

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Accounting Officer's Responsibilities and Approval

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

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

The 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 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.

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

The financial statements set out on pages 6 to 63, which have been prepared on the going concern basis, were approved by the Accounting Officer on 29th of August 2014 and were signed by him.

Mr C.G Booyesen
Accounting Officer
Thabazimbi Local Municipality

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2014.

1. Review of activities

Main business and operations

The operating results for the year were not satisfactory due to the following reasons. The financial position of the municipality is bad due to non prioritisation of expenditure through out the year.

2. Going concern

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

3. Subsequent events

The following events occurred after year.

1. The sending of key members of management on special leave pending investigations into allegation of financial mismanagement.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5.

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

Name	Nationality
Mr C.G Booysen	South African

6. Corporate governance

General

The municipality is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the municipality supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit committee

Mr .L.E Mphahlele was the chairperson of the audit committee. The audit committee met 6 times during the financial year to review matters necessary to fulfill its role.

In terms of Section 166 of the Municipal Finance Management Act, Thabazimbi Local Municipality must appoint members of the Audit Committee. National Treasury policy requires that municipalities appoint members of the municipality's audit committees who are not councillors of the municipality.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Officer's Report

Internal audit

Mr P.H Makhuvha is the head of Internal Audit. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

The municipality banks primarily with ABSA Bank Limited.

8. Auditors

Auditor General South Africa will continue in office.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Statement of Financial Position as at June 30, 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	9	2,644,816	2,868,138
Receivables from exchange transactions	10	2,497,194	22,418
VAT receivable	11&19	24,724,680	18,227,377
Consumer debtors	12	71,780,560	56,972,744
Cash and cash equivalents	13	3,327,306	3,137,342
		104,974,556	81,228,019
Non-Current Assets			
Biological assets that form part of an agricultural activity	3	879,600	610,100
Property, plant and equipment	5	1,101,826,759	1,140,552,279
Other financial assets	7	3,135,878	2,653,425
Total Non-Current Assets		1,105,842,237	1,143,815,804
Total Assets		1,210,816,793	1,225,043,823
Liabilities			
Current Liabilities			
Other financial liabilities	16	2,817,733	2,377,482
Finance lease obligation	14	2,651,365	639,435
Operating lease liability		1,133	10,726
Payables from exchange transactions	18	207,151,611	113,451,909
VAT payable	11&19	11,966,233	11,173,412
Consumer deposits	20	3,563,316	3,391,200
Unspent conditional grants and receipts	15	18,639,790	1
Provisions	17	11,026,831	10,135,253
		257,818,012	141,179,418
Non-Current Liabilities			
Other financial liabilities	16	3,065,079	5,287,414
Finance lease obligation	14	5,541,248	492,867
Employee benefit obligation	8	25,135,346	18,786,272
Provisions	17	20,290,461	17,851,802
Total Non-Current Liabilities		54,032,134	42,418,355
Total Liabilities		311,850,146	183,597,773
Net Assets		898,966,647	1,041,446,050
Accumulated surplus		898,966,647	1,041,446,050

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Statement of Financial Performance

Figures in Rand	Notes	2014	2013
Revenue			
Service charges	23	93,633,158	90,134,969
Traffic fines		1,002,460	387,500
Rental of facilities and equipment	22	380,873	521,394
Income from agency services		5,524,138	3,287,385
Sale of PPE		2,199,787	6,139
Bulk contributions		2,631,579	-
Donations		1,200,000	16,249,464
Discount received		1,133	3,026
Other income	26	2,387,479	3,822,301
Interest received - investment and debtors		8,483,020	8,383,688
Property rates	22	13,708,484	12,075,736
Government grants & subsidies	24	72,470,015	119,670,833
Total revenue		203,622,126	254,542,435
Expenditure			
Employee related cost	28	(101,944,467)	(75,672,400)
Remuneration of councillors	29	(6,237,442)	(5,691,851)
Depreciation and amortisation	31	(67,509,281)	(65,266,697)
Impairment loss/ Reversal of impairments		(12,631,818)	(752,693)
Finance costs	32	(11,893,333)	(8,674,768)
Repairs and maintenance		(15,349,389)	(18,089,057)
Bulk purchases	35	(64,860,598)	(58,571,421)
General Expenses	27	(56,423,767)	(30,559,034)
Total expenditure		(336,850,095)	(263,277,921)
Operating deficit		(133,227,969)	(8,735,486)
Gain on biological assets		269,500	228,160
Deficit for the year		(132,958,469)	(8,507,326)

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	823,452,717	823,452,717
Adjustments		
Prior year adjustments	163,177,586	163,177,586
Balance at July 01, 2012 as restated*	986,630,303	986,630,303
Changes in net assets		
Reversal of Impairment loss	(6,226,416)	(6,226,416)
Other expenses		
• Decrease in Repairs and maintenance	(880,368)	(880,368)
Net increase in Assets	59,816,246	59,816,246
Increase in Depreciation	10,504,180	10,504,180
.	94,437	94,437
Net decrease in Vat receivable	14,994	14,994
Net income (losses) recognised directly in net assets	63,323,073	63,323,073
Surplus for the year	(8,507,326)	(8,507,326)
Total recognised income and expenses for the year	54,815,747	54,815,747
Total changes	54,815,747	54,815,747
Balance at July 01, 2013	1,041,446,050	1,041,446,050
Changes in net assets		
Changes in other Assets	(9,520,934)	(9,520,934)
Net income (losses) recognised directly in net assets	(9,520,934)	(9,520,934)
Surplus for the year	(132,958,469)	(132,958,469)
Total recognised income and expenses for the year	(142,479,403)	(142,479,403)
Total changes	(142,479,403)	(142,479,403)
Balance at June 30, 2014	898,966,647	898,966,647

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Service charges and rates		79,923,681	90,174,380
Grants		91,109,804	104,522,589
Interest income		8,483,020	8,383,688
Other receipts		13,710,225	25,525,588
		<u>193,226,730</u>	<u>228,606,245</u>
Payments			
Employee costs		(96,663,597)	(72,137,376)
Suppliers		(58,748,243)	(62,964,537)
Finance costs		(11,893,333)	(8,674,768)
		<u>(167,305,173)</u>	<u>(143,776,681)</u>
Net cash flows from operating activities	36	<u>25,921,557</u>	<u>84,829,564</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(31,096,867)	(83,602,200)
Increase in financial assets		(482,453)	(46,990)
Increase in minor assets	3	(269,500)	-
Net cash flows inflows sale of PPE		300,000	-
		<u>(31,009,820)</u>	<u>(83,649,190)</u>
Net increase/(decrease) in cash and cash equivalents		189,964	(125,891)
Cash and cash equivalents at the beginning of the year		3,137,342	3,263,233
Cash and cash equivalents at the end of the year	13	<u>3,327,306</u>	<u>3,137,342</u>

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	23,658,000	(6,722,000)	16,936,000	-	-	16,936,000	13,708,484	-	(3,227,516)	81 %	58 %
Service charges	133,288,000	10,026,000	143,314,000	-	-	143,314,000	93,633,158	-	(49,680,842)	65 %	70 %
Investment revenue	45,000	-	45,000	-	-	45,000	8,483,020	-	8,438,020	18,851 %	18,851 %
Transfers recognised - operational	67,686,000	-	67,686,000	-	-	67,686,000	72,470,015	-	4,784,015	107 %	107 %
Other own revenue	16,706,000	2,057,000	18,763,000	-	-	18,763,000	15,596,949	-	(3,166,051)	83 %	93 %
Total revenue (excluding capital transfers and contributions)	241,383,000	5,361,000	246,744,000	-	-	246,744,000	203,891,626	-	(42,852,374)	83 %	84 %
Employee costs	(82,900,000)	(4,519,000)	(87,419,000)	-	-	(87,419,000)	(101,944,467)	-	(14,525,467)	117 %	123 %
Remuneration of councillors	(6,933,000)	(443,000)	(7,376,000)	-	-	(7,376,000)	(6,237,442)	-	1,138,558	85 %	90 %
Debt impairment	(2,000,000)	-	(2,000,000)	-	-	(2,000,000)	-	-	2,000,000	- %	- %
Depreciation and asset impairment	(16,123,000)	(3,750,000)	(19,873,000)	-	-	(19,873,000)	(80,141,099)	-	(60,268,099)	403 %	497 %
Finance charges	(3,500,000)	49,000	(3,451,000)	-	-	(3,451,000)	(11,893,333)	-	(8,442,333)	345 %	340 %
Materials and bulk purchases	(58,803,000)	-	(58,803,000)	-	-	(58,803,000)	(64,860,598)	-	(6,057,598)	110 %	110 %
Other expenditure	(50,740,000)	(1,246,000)	(51,986,000)	-	-	(51,986,000)	(71,773,156)	-	(19,787,156)	138 %	141 %
Total expenditure	(220,999,000)	(9,909,000)	(230,908,000)	-	-	(230,908,000)	(336,850,095)	-	(105,942,095)	146 %	152 %
Surplus/(Deficit)	20,384,000	(4,548,000)	15,836,000	-	-	15,836,000	(132,958,469)	-	(148,794,469)	(840)%	(652)%

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Financial Statements for the year ended June 30, 2014

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	40,019,000	-	40,019,000	-		40,019,000	27,261,000		(12,758,000)	68 %	68 %
Surplus (Deficit) after capital transfers and contributions	60,403,000	(4,548,000)	55,855,000	-		55,855,000	(105,697,469)		(161,552,469)	(189)%	(175)%
Surplus/(Deficit) for the year	60,403,000	(4,548,000)	55,855,000	-		55,855,000	(105,697,469)		(161,552,469)	(189)%	(175)%

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1. Presentation of Financial Statements

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

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

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

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 / Held to maturity investments and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

Allowance for doubtful debts

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

1.2 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

1.3 Investment property

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

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

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

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

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

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.3 Investment property (continued)

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Hostels and Property	30 years
Land	Indefinite

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

1.4 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets 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.

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

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

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

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1.4 Property, plant and equipment (continued)

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

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

Item	Average useful life
Buildings	30 years
Infrastructure	
• Roads and Paving	20 years
• Pedestrian Malls	20 Years
• Electricity	20 Years
• Water	20 Years
• Sewerage	20 Years
Community	
• Buildings	30 Years
• Recreational Facilities	30 Years
• Halls	30 years
• Libraries	30 Years
Other	
• Specialist Vehicles	5 Years
• Other vehicles	5 Years
• Office Equipment	7 Years
• Furniture and Fittings	5 years
• Bins and Containers	5 Years
• Specialised plant and equipment	5 years
• Other items of plant and equipment	5 years
• Landfill Site	15 Years
• Emergency Equipment	5 years
• Computer Equipment	5 years
Heritage	
• Buildings	
• Paintings and artifacts	None
•	None
Asset found	

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

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

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

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

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

Thabazimbi local municipality

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Accounting Policies

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software	5 years

1.6 Financial instruments

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

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

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

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

Thabazimbi local municipality

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Accounting Policies

1.6 Financial instruments (continued)

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

Thabazimbi local municipality

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Accounting Policies

1.6 Financial instruments (continued)

Classification

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

Class	Category
Bank Balances	Financial asset measured at amortised cost
Receivables	Financial asset measured at amortised cost
Money Market Investments	Financial asset measured at
Unit Trusts	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 performance or in the notes thereto:

Class	Category
DBSA Loan	Financial liability measured at amortised cost
Trade Payables	Financial liability measured at amortised cost
Loan3	Financial liability measured at amortised cost

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

Class	Category
	Measured at fair value
	Measured at cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Thabazimbi local municipality

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

Thabazimbi local municipality

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Accounting Policies

1.6 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Thabazimbi local municipality

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Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Thabazimbi local municipality

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Accounting Policies

1.6 Financial instruments (continued)

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

Presentation

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

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

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

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

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

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

1.7 Leases

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

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

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial performance 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 performance 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.

Thabazimbi local municipality

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Accounting Policies

1.7 Leases (continued)

Operating leases - lessor

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

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

The aggregate 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 position.

Operating leases - lessee

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

1.8 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

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

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

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

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

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

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

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

1.9 Impairment of cash-generating assets

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

Thabazimbi local municipality

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Useful life is either:

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

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Thabazimbi local municipality

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Accounting Policies

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

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

1.11 Employee benefits

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

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

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

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

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

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

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

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

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

Thabazimbi local municipality

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Accounting Policies

1.11 Employee benefits (continued)

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

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.11 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect 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 post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.12 Provisions and contingencies (continued)

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 38.

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

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

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

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

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

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

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

Accounting Policies

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

1.14 Revenue from non-exchange transactions

1.15 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.16 Investment income

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

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.17 Borrowing costs

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial position 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 position.

1.20 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 position 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 position.

1.21 Irregular expenditure

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Accounting Policies

1.21 Irregular expenditure (continued)

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 Position and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Position.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
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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:

I GRAP 1 -Recognition of Revenue from Non exchange transaction was issued by the Accounting standards Board and became effective for the period commencing on or after 1 April 2013.

GRAP 25 -Employee benefits issued by the Accounting Standards Board becomes fully applicable to all public entities including Municipalities from the 1 April 2013.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

2. New standards and interpretations (continued)

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, 2014 or later periods:

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand 2014 2013

3. Biological assets that form part of an agricultural activity

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Other biological assets	879,600	-	879,600	610,100	-	610,100

Reconciliation of biological assets that form part of an agricultural activity - 2014

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	610,100	269,500	879,600

Reconciliation of biological assets that form part of an agricultural activity - 2013

	Opening balance	Gains or losses arising from changes in fair value	Total
Other biological assets	381,941	228,159	610,100

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
3. Biological assets that form part of an agricultural activity (continued)		
Non - Financial information		
Quantities of each biological asset		
Girraffe	14	12
Eland	17	14
Kudu	50	20
Water Buck	7	5
Njala	12	4
Blue Wild Beast	24	22
Impala	205	204
Zebra	21	11
Duiker	1	-
Wathorg	55	-
Bush Buck	2	-
	408	292

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand 2014 2013

4. Investment property

Borrowing costs capitalised

No borrowing costs were capitalised during the financial year.

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

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:he

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

5. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	29,763,010	-	29,763,010	29,763,010	-	29,763,010
Buildings	23,072,821	(9,178,779)	13,894,042	23,072,821	(7,084,614)	15,988,207
Plant and machinery	357,787	(214,014)	143,773	357,787	(146,190)	211,597
Furniture and fixtures	620,743	(392,272)	228,471	267,272	(139,936)	127,336
Motor vehicles	8,468,379	(2,103,292)	6,365,087	2,467,962	(1,341,278)	1,126,684
Office equipment	7,529,076	(4,170,365)	3,358,711	4,529,111	(2,709,451)	1,819,660
Roads Infrastructure	666,147,728	(127,190,796)	538,956,932	664,284,086	(98,825,578)	565,458,508
Community	30,143,902	(11,228,619)	18,915,283	30,143,902	(8,746,040)	21,397,862
Work-in-progress	118,656,777	-	118,656,777	101,539,980	-	101,539,980
Landfill Asset	1,718,471	(824,378)	894,093	1,718,471	(634,047)	1,084,424
Electrical Infrastructure	145,600,589	(41,822,018)	103,778,571	145,600,589	(32,494,055)	113,106,534
Park facilities	14,918,369	(5,168,426)	9,749,943	14,918,369	(3,954,014)	10,964,355
Security Equipment	144,861	(126,305)	18,556	144,861	(97,550)	47,311
Emergency Equipment	52,003	(43,336)	8,667	52,003	(34,669)	17,334
Wastewater network	122,325,746	(23,770,936)	98,554,810	122,325,746	(18,235,321)	104,090,425
Water and storm water network	229,200,220	(70,660,187)	158,540,033	228,750,753	(54,941,701)	173,809,052
Total	1,398,720,482	(296,893,723)	1,101,826,759	1,369,936,723	(229,384,444)	1,140,552,279

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013				
5. Property, plant and equipment (continued)						
Reconciliation of property, plant and equipment - 2014						
	Opening balance	Additions	Additions through entity combinations	Transfers	Depreciation	Total
Land	29,763,010	-	-	-	-	29,763,010
Buildings	15,988,207	-	-	-	(2,094,165)	13,894,042
Plant and machinery	211,597	-	-	-	(67,824)	143,773
Furniture and fixtures	127,336	353,471	-	-	(252,336)	228,471
Motor vehicles	1,126,684	6,000,417	-	-	(762,014)	6,365,087
Office equipment	1,819,660	2,999,965	1	-	(1,460,915)	3,358,711
Roads Infrastructure	565,458,508	1,863,641	-	-	(28,365,217)	538,956,932
Community	21,397,862	-	-	-	(2,482,579)	18,915,283
Work in progress	101,539,980	19,429,906	-	(2,313,109)	-	118,656,777
Landfill site Asset	1,084,424	-	-	-	(190,331)	894,093
Electrical Network	113,106,534	-	-	-	(9,327,963)	103,778,571
Sport facilities	10,964,355	-	-	-	(1,214,412)	9,749,943
Security Equipment	47,311	-	-	-	(28,755)	18,556
Emergency Equipment	17,334	-	-	-	(8,667)	8,667
Wastewater network	104,090,425	-	-	-	(5,535,615)	98,554,810
Water and storm water network	173,809,052	449,466	-	-	(15,718,485)	158,540,033
	1,140,552,279	31,096,866	1	(2,313,109)	(67,509,278)	1,101,826,759

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfers	Depreciation	Total
Land	29,763,010	-	-	-	29,763,010
Buildings	18,032,281	-	-	(2,044,074)	15,988,207
Plant and machinery	96,345	170,000	-	(54,748)	211,597
Furniture and fixtures	148,932	15,462	-	(37,058)	127,336
Motor vehicles	1,557,257	-	-	(430,573)	1,126,684
Office equipment	1,988,168	659,402	-	(827,910)	1,819,660
Road Infrastructure	585,962,211	8,254,455	-	(28,758,158)	565,458,508
Community Assets	23,878,167	-	-	(2,480,305)	21,397,862
Work in progress	49,879,924	66,931,530	(15,271,474)	-	101,539,980
Landfill site Asset	1,273,837	-	-	(189,413)	1,084,424
Electrical network	122,364,378	77,058	-	(9,334,902)	113,106,534
Sport facilities	12,112,447	-	-	(1,148,092)	10,964,355
Security Equipment	76,066	-	-	(28,755)	47,311
Emergency equipment	26,002	-	-	(8,668)	17,334
Wastewater network	104,788,043	4,313,186	-	(5,010,804)	104,090,425
Water and storm water network	185,505,564	3,181,107	-	(14,877,619)	173,809,052
	1,137,452,632	83,602,200	(15,271,474)	(65,231,079)	1,140,552,279

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

6. Intangible assets

Reconciliation of intangible assets - 2014

Reconciliation of intangible assets - 2013

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
7. Other financial assets		
At amortised cost		
Sanlam Investment: Market Investment Terms and conditions	73,105	69,415
Old Mutual: Investment Fund Terms and conditions	3,062,773	2,584,010
	3,135,878	2,653,425
Non-current assets		
At amortised cost	3,135,878	2,653,425
8. Employee benefit obligations		
Defined benefit plan		
Post retirement benefit plan		
The amounts recognised in the statement of financial performance are as follows:		
Carrying value		
Opening Present value of the defined benefit obligation-wholly unfunded	(18,786,272)	(17,955,339)
Current Service cost	(1,127,712)	-
Net actuarial gain /loss	(3,654,151)	(830,933)
Interest cost	(1,766,315)	-
Expected Employer Benefits	199,104	-
	(25,135,346)	(18,786,272)
[Provide a brief description of the link between the reimbursement right(s) and the related obligation]		
The fair value of plan assets includes:		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	12,934,822	12,103,894
Net expense recognised in the statement of financial position	6,349,074	830,928
	19,283,896	12,934,822
Net expense recognised in the statement of financial position		
Current service cost	1,127,712	1,232,258
Interest cost	1,766,315	1,517,741
Actuarial (gains) losses	3,654,151	(1,753,627)
Expected return on plan assets	(199,104)	(165,444)
	6,349,074	830,928

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
8. Employee benefit obligations (continued)		
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	9.40 %	9.45 %
Medical cost trend rates	8.50 %	7.98 %
Future changes in maximum state healthcare benefits	0.84 %	1.36 %
Key demographic assumptions used at the reporting date:		
Average retirement age:	63	
Continuation of membership at retirement:	95%	
Proportion assumed married at retirement:	95%	
Proportion of eligible current non-member employees joining the scheme by retirement:	30%	
Mortality during employment:	SA 85-90	
Post retirement:	PA(90)-1	
9. Inventories		
Water	169,304	91,639
Stock on hand	2,475,501	3,483,808
	<u>2,644,805</u>	<u>3,575,447</u>
Inventories (write-downs)	11	(707,309)
	<u>2,644,816</u>	<u>2,868,138</u>
10. Receivables from exchange transactions		
Other receivables	2,497,194	22,418
	<u>2,497,194</u>	<u>22,418</u>
11. VAT receivable		
VAT	24,724,680	18,227,377
	<u>24,724,680</u>	<u>18,227,377</u>
12. Consumer debtors		
Gross balances		
Rates	15,497,350	15,497,350
Electricity	16,608,553	16,608,553
Water	82,910,052	56,845,082
Sewerage	18,213,946	13,103,505
Refuse	13,103,505	18,213,946
Debt arrangements	1,352,991	-
	<u>147,686,397</u>	<u>120,268,436</u>
Less: Allowance for impairment		
Rates	(12,603,206)	(13,542,912)
Electricity	(5,923,160)	(1,905,691)
Water	(42,781,479)	(35,674,244)
Sewerage	(8,326,787)	(6,943,468)
Refuse	(6,271,205)	(5,229,377)
	<u>(75,905,837)</u>	<u>(63,295,692)</u>

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
12. Consumer debtors (continued)		
Net balance		
Rates	2,894,144	1,954,438
Electricity	10,685,393	14,702,862
Water	40,128,573	21,170,838
Sewerage	9,887,159	6,160,037
Refuse	6,832,300	12,984,569
Debt arrangements	1,352,991	-
	71,780,560	56,972,744
Included in above is receivables from exchange transactions		
Electricity	12,504,296	14,702,862
Water	44,378,826	21,170,838
Sewerage	4,776,718	6,160,037
Refuse	11,942,741	12,984,569
Rates	1,075,241	1,954,438
	74,677,822	56,972,744
Net balance	74,677,822	56,972,744
Rates		
Current (0 -30 days)	1,202,266	781,908
31 - 60 days	724,478	808,756
61 - 90 days	575,973	363,774
91 - 120 days	391,427	-
	2,894,144	1,954,438
Electricity		
Current (0 -30 days)	2,150,082	13,783,801
31 - 60 days	872,773	345,494
61 - 90 days	557,420	573,567
91 - 120 days	560,672	-
121 - 365 days	6,544,446	-
	10,685,393	14,702,862
Water		
Current (0 -30 days)	-	3,865,386
31 - 60 days	2,380,607	4,286,590
61 - 90 days	957,940	13,018,862
91 - 120 days	1,762,080	-
121 - 365 days	7,771,172	-
> 365 days	27,256,774	-
	40,128,573	21,170,838
Sewerage		
Current (0 -30 days)	954,163	1,654,802
31 - 60 days	626,842	476,058
61 - 90 days	528,578	1,696,537
91 - 120 days	476,058	1,057,908
121 - 365 days	425,774	-
> 365 days	6,875,744	1,274,732
	9,887,159	6,160,037

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
12. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	648,356	3,578,455
31 - 60 days	439,952	2,580,307
61 - 90 days	592,344	3,283,083
91 - 120 days	2,160,972	3,542,724
121 - 365 days	265,155	-
> 365 days	2,725,521	-
	6,832,300	12,984,569
Debt arrangements		
Current (0 -30 days)	123,770	-
31 - 60 days	85,584	-
61 - 90 days	82,541	-
91 - 120 days	54,895	-
121 - 365 days	50,431	-
> 365 days	955,770	-
Reconciliation of allowance for impairment		
Balance at beginning of the year	(63,295,692)	(62,542,999)
Contributions to allowance	(12,610,145)	(752,693)
	(75,905,837)	(63,295,692)
13. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	3,598	131
Bank balances	3,323,708	3,137,211
	3,327,306	3,137,342

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2014	June 30, 2013	June 30, 2012
ABSA Bank Limited - Cheque Account # 1580000009	859,591	1,943,771	1,416,103	3,017,127	2,905,722	3,018,913
ABSA Bank Account # 165322	138,440	66,298	66,844	138,440	66,298	66,788
ABSA Fixed Deposit- Short Term Investment	173,618	165,322	177,532	171,739	165,322	177,532
Total	1,171,649	2,175,391	1,660,479	3,327,306	3,137,342	3,263,233

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
14. Finance lease obligation		
Minimum lease payments due		
- within one year	2,651,365	639,435
- in second to fifth year inclusive	5,541,248	492,867
Present value of minimum lease payments	8,192,613	1,132,302
Non-current liabilities	5,541,248	492,867
Current liabilities	2,651,365	639,435
	8,192,613	1,132,302

15. Unspent conditional grants and receipts

Balance of unspent conditional grant is R18 639 790 at 30 June 2014, reconciliation disclosed on note number 23.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	18,639,790	1
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The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013		
16. Other financial liabilities				
At amortised cost				
Development Bank of South Africa Terms and conditions	5,882,812	7,664,896		
Non-current liabilities				
At amortised cost	3,065,079	5,287,414		
Current liabilities				
At amortised cost	2,817,733	2,377,482		
17. Provisions				
Reconciliation of provisions - 2014				
	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site - Long term	13,501,131	1,766,486	-	15,267,617
Long service awards	4,350,671	672,173	-	5,022,844
Provision for leave pay	9,402,349	1,724,825	(620,593)	10,506,581
Provision - Landfill Site - Short term	732,904	(212,654)	-	520,250
	27,987,055	3,950,830	(620,593)	31,317,292
Reconciliation of provisions - 2013				
	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	7,085,401	6,415,730	-	13,501,131
Long service awards	4,305,259	45,412	-	4,350,671
Provision for leave pay	7,694,611	3,043,234	(1,335,496)	9,402,349
Landfill site and Longs service award - Short term	-	732,904	-	732,904
	19,085,271	10,237,280	(1,335,496)	27,987,055
Non-current liabilities			20,290,461	17,851,802
Current liabilities			11,026,831	10,135,253
			31,317,292	27,987,055
18. Payables from exchange transactions				
Trade payables			184,198,539	97,147,738
Retentions withheld			8,889,595	7,701,681
Amounts received in advance			11,284,624	6,197,668
Other payables			2,778,853	2,404,822
			207,151,611	113,451,909

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
19. VAT payable		
VAT	11,966,233	11,173,412
20. Consumer deposits		
Water & lights	3,563,316	3,391,200
21. Revenue		
Service charges	93,633,158	90,134,969
Construction contracts	1,002,460	387,500
Rental of facilities and equipment	380,873	521,394
Income from agency services	5,524,138	3,287,385
Sale of PPE	2,199,787	6,139
Fees earned	2,631,579	-
Royalties received	1,200,000	16,249,464
Discount received	1,133	3,026
Other income	2,387,479	3,822,301
Interest received - investment	8,483,020	8,383,688
Property rates	13,708,484	12,075,736
Government grants & subsidies	72,470,015	119,670,833
	203,622,126	254,542,435
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	93,633,158	90,134,969
Construction contracts	1,002,460	387,500
Rental of facilities and equipment	380,873	521,394
Income from agency services	5,524,138	3,287,385
Sale of PPE	2,199,787	6,139
Fees earned	2,631,579	-
Donation received	1,200,000	16,249,464
Discount received	1,133	3,026
Other income	2,387,479	3,822,301
Interest received - investment and debtors	8,483,020	8,383,688
	117,443,627	122,795,866
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	13,708,484	12,075,736
Transfer revenue		
Government grants & subsidies	72,470,015	119,670,833
	86,178,499	131,746,569

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
22. Property rates		
Rates received		
Residential	2,452,706	1,924,043
Commercial	3,427,617	2,171,562
State	53,784	43,479
Small holdings and farms	7,774,377	7,936,652
	13,708,484	12,075,736
Valuations		
Residential	3,203,474,000	2,417,330,060
Commercial and Industrial	963,176,400	589,106,020
State	93,951,000	50,824,000
Municipal	21,583,500	44,206,500
Small holdings and Agricultural land	7,711,045,200	4,395,399,035
Social & Vacant land	220,516,930	46,541,600
	12,213,747,030	7,543,407,215

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

23. Service charges

Sale of electricity	47,195,469	43,622,307
Sale of water	20,951,806	26,711,640
Sewerage and sanitation charges	13,001,044	11,648,963
Refuse removal	8,615,276	8,152,059
Other service charges	3,869,563	-
	93,633,158	90,134,969

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
24. Government grants and subsidies		
Equitable share	60,129,000	60,104,000
Municipal Infrastructure Grant (MIG)	8,621,211	54,818,244
Financial Management Grant (FMG)	1,550,000	1,500,000
Municipal Systems Improvement Grant (MSIG)	890,000	800,000
EPWP Grant	1,000,000	1,514,000
Fire Subsidy	189,701	567,746
SETA Grant	90,103	366,843
	72,470,015	119,670,833

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	1	15,148,245
Current-year receipts	27,261,000	42,153,000
Conditions met - transferred to revenue	(8,621,211)	(54,817,913)
Unspent prior year	-	(2,483,331)
	18,639,790	1

Conditions still to be met - remain liabilities (see note 15).

Financial Management Grant

Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,550,000)	(1,500,000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

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

Municipal Systems Improvement Program Grant

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

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

EPWP Grant

Current-year receipts	1,000,000	1,392,667
Conditions met - transferred to revenue	(1,000,000)	(1,392,667)

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
24. Government grants and subsidies (continued)	-	-
25. Other revenue		
Bulk contributions	2,631,579	-
Donations received	1,200,000	16,249,464
Discount received	1,133	3,026
Other income (Breakdown note 25)	2,387,479	3,822,301
	6,220,191	20,074,791
26. Other income		
Meter Fees	86,956	81,519
Tender Fees	61,719	90,756
Fees-Graves	199,923	198,681
Fines	4,117	4,238
Clearance certificate	4,603	4,791
Fees-plans	485,717	339,108
Connection Fees	326,087	2,267,659
Sale-Photo copies	17,345	18,059
Fire services-Fees	291,056	87,693
Vendors	-	6
Sales- Refuse Bags	523	497
Database	18,049	19,056
Certificate-Road worthy	-	(2,613)
Fees-Hawkers	35,376	48,421
Miscellaneous income accounts	15,868	5,514
Telephone and Fax	7,673	-
Surpluses	4,247	4,193
Registration and subscription Fees	151,824	121,955
Vesting Benefits	676,396	532,768
	2,387,479	3,822,301

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
27. General expenses		
Advertising	946,017	321,113
Auditors remuneration	2,845,625	2,326,151
Bank charges	705,971	339,661
Cleaning	1,148,890	174,731
Consulting and other services provider expenses	9,071,938	3,884,960
Debt collection	3,854,858	-
Electricity Vending	216,978	1,013,547
Entertainment	1,388,881	613,749
Insurance	1,260,247	1,184,818
Community projects expenditure	6,035,782	603,856
Lease rentals on operating lease	4,148,262	783,999
Marketing	189,761	-
Magazines, books and periodicals	2,127	-
Motor vehicle expenses	2,866,636	2,880,944
Postage and courier	309,021	160,581
Printing and stationery	1,501,846	453,294
Protective clothing	1,190,605	192,624
Security	2,023,284	275,586
Health and safety expenses	250,400	214,900
Subscription	796,563	624,460
Telephone cost	1,695,919	1,569,862
Training	3,736,019	1,334,878
Travel - local	2,465,277	904,315
Title deed search fees	92,576	-
Sewerage and waste disposal	(506)	146,660
Refuse	38,298	28,211
Stock losses	114,391	888,066
Landfill site	4,292,740	6,821,477
Cross subsidy	3,183,802	2,773,362
Delegates fees	-	19,140
Game expenses	44,016	25,672
Biological stock written off	7,543	-
Operating leases	-	(1,583)
	56,423,767	30,559,034

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
28. Employee related costs		
Basic	57,966,865	43,167,650
Bonus	3,507,089	2,937,579
Medical aid - company contributions	3,268,278	2,884,252
UIF	589,236	448,430
WCA	-	31,235
SDL	808,520	313,500
Leave pay provision charge	1,724,825	3,043,235
Defined contribution plans	15,691,607	6,944,587
Travel, motor car, accommodation, subsistence and other allowances	5,382,659	4,531,646
Overtime payments	5,735,542	4,214,785
13th Cheques	374,031	278,493
Housing benefits and allowances	102,944	-
Provident fund	763,275	932,234
COIDA	282,443	412,509
Industrial council	39,124	31,091
	96,236,438	70,171,226
Remuneration of Municipal manager		
Annual Remuneration	1,018,453	1,018,453
Car Allowance	180,000	180,000
Contributions to UIF, Medical and Pension Funds	11,625	32,377
	1,210,078	1,230,830
Remuneration of Chief Finance Officer		
Annual Remuneration	736,000	702,663
Car Allowance	184,000	135,909
Contributions to UIF, Medical and Pension Funds	8,832	21,604
	928,832	860,176
Remuneration of Technical services manager		
Annual Remuneration	770,640	731,462
Car Allowance	196,560	178,308
Contributions to UIF, Medical and Pension Funds	9,293	11,636
	976,493	921,406
Remuneration of Corporate services manager		
Annual Remuneration	709,712	676,482
Car Allowance	127,200	163,200
Contributions to UIF, Medical and Pension Funds	97,993	7,860
	934,905	847,542
Remuneration Community and social services manager		
Annual Remuneration	568,459	597,857
Car Allowance	127,200	127,200
Contributions to UIF, Medical and Pension Funds	6,290	9,103
	701,949	734,160

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
28. Employee related costs (continued)		
Remuneration Planning and development manager		
Annual Remuneration	784,000	718,887
Car Allowance	163,200	163,200
Contributions to UIF, Medical and Pension Funds	8,572	24,973
	955,772	907,060
29. Remuneration of councillors		
Councillors	6,237,442	5,691,851
30. Investment revenue		
Interest revenue		
Bank	497,308	146,397
Interest received - Consumer debtors	7,985,712	8,237,291
	8,483,020	8,383,688
The amount included in Investment revenue arising from exchange transactions amounted to R7,985,712.00		
The amount included in Investment revenue arising from non-exchange transactions amounted to -.R497,308.00		
31. Depreciation and amortisation		
Property, plant and equipment	67,509,281	65,266,697
32. Finance costs		
Finance cost	11,893,333	8,674,768

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
33. Auditors' remuneration		
Fees	2,845,625	2,326,151
34. Rental of facilities and equipment		
Premises		
Premises owned by the municipality	380,434	519,905
Facilities and equipment		
Rental of equipment	439	1,489
	380,873	521,394
35. Bulk purchases		
Electricity	48,141,026	43,142,293
Water	16,719,572	15,429,128
	64,860,598	58,571,421
36. Cash generated from operations		
Deficit	(132,958,469)	(8,507,326)
Adjustments for:		
Depreciation and amortisation	67,509,281	65,266,697
Gain on fair value of Biological Assets	(269,500)	(228,160)
Impairment deficit	12,631,818	752,693
Movements in operating lease assets and accruals	(9,593)	(11,985)
Movements in retirement benefit assets and liabilities	6,349,074	830,933
Movements in provisions	3,330,237	8,901,784
Other non-cash items	(7,777,328)	(44,112,327)
Changes in working capital:		
Inventories	223,322	194,472
Receivables from exchange transactions	(15,106,594)	339,736
Consumer debtors	(14,807,816)	17,580,815
Payables from exchange transactions	93,699,702	53,424,551
VAT	(5,704,482)	5,387,724
Unspent conditional grants and receipts	18,639,789	(15,148,244)
Consumer deposits	172,116	158,201
	25,921,557	84,829,564

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
37. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	281,160,627	266,634,704
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	4,000,000
<p>This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.</p>		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1,169	267,981

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

38. Contingencies

Litigation is in the process against the municipality relating to a dispute with an employee Mr Malepe who alleges that the municipality has infringed his employment rights-. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next 90 days with no financial exposure. No financial impact is anticipated to befall the municipality other than the legal costs to attorneys.

Litigation is in progress between the municipality and Mr Fischer, The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next 90 days with no financial exposure.No financial impact is anticipated to befall the municipality other than the legal costs to attorneys.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
39. Related parties		
Relationships		
Accounting Officer		Refer to accounting officer's report note
Municipal Gratuity Fund		Post Employment benefit plan for employees of Thabazimbi
Department of Transport		Fellow entity
Related party transactions		
License Commission earned		
Department of Transport	4,786,010	3,932,885
Balance owed to Department Of Transport		
Balance owed	18,139,463	11,504,674
Subscription fees paid to /Received from Related Parties		
SALGA	865,400	613,638
Section 56& 57 Managers		
Municipal Manager	1,270,078	1,230,830
Chief Financial Officer	928,832	860,176
Technical Services Manager	976,493	921,406
Corporate Services Manager	934,905	847,542
Planning and Developmnet Manager	955,772	907,060
Community and Social services Manager	701,949	694,762
Chief Operations Officer	656,663	635,922
Councillors		
Cllr. P.A Mosito	734,979	668,709
Cllr. S.G.Matsietsa	590,811	556,753
Cllr.M.D Thlabadira	511,658	506,115
Cllr.M.E Semadi	309,492	289,605
Cllr.S.A Khumalo	229,449	214,126
Cllr. T.Mkansi	511,652	513,013
Cllr.D.A Moatshe	211,300	212,406
Cllr.L.H Joubert	211,898	281,720
Cllr.F Loots	211,300	212,403
Cllr.A.R Ramogale	266,604	309,882
Cllr.S.G Lerumo	211,303	208,007
Cllr.C.S Sikwane	211,300	207,689
Cllr.R.C Du preez	229,449	212,484
Cllr.P.A Scruton	211,581	211,225
Cllr. K.R Mokwena	229,449	210,449
Cllr.M.Moselane	211,298	209,747
Cllr.P Strydom	229,449	215,325
Cllr.B.N Maguga	212,879	212,188
Cllr.S.I Manala	217,096	210,175
Cllr.M.L Sikwari	211,300	207,643
Cllr.J.M Fisher	211,335	210,301
Cllr.T.D Molefe	211,299	213,580
Cllr. D.R Daniels	211,581	211,526
	4,826	-

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
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40. Prior period errors

1. The repairs and maintenance vote was overstated by assets bought and incorrectly classified to expenses
2. The PPE that was included in the FAR and AFS in the previous years was incorrect and this has resulted in an increase in the value of PPE
3. The municipality recognised an intangible asset and Investment property in the prior year for assets that do not meet the requirements.
4. Correction of error in impairment for prior year.
5. Increase in depreciation after new FAR was submitted.
6. Interest expense on the landfill was not properly accounted for in the statement of financial performance.

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

Statement of Financial Performance

Reduction in impairment loss after correction of error	4	(6,226,416)
Decrease in repairs and maintenance	1	(1,132,460)
Increase in entertainment expense	-	3,000
Increase in Depreciation	5	10,504,180
Decrease in Landfill movement	6	(150,136)

Statement of Financial Position

Property, Plant and Equipment(Increase)	2	65,588,417
Decrease in Intangible assets	3	(1,293,571)
Decrease in Investment Property	3	(4,478,600)
Net Increase in Vat Receivable	-	(14,994)
Correction of overstatement in loans	-	21,127

41. Comparative figures

Certain comparative figures have been reclassified

42. 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.

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.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

43. Going concern

We draw attention to the fact that at June 30, 2014, the municipality incurred a deficit of 132,958,469 and that the municipality's current liabilities exceed its current assets by 152,843,456, however the total assets exceed the total liabilities by R898 966 647. The municipality is experiencing cashflow challenges to promptly settle suppliers. The plan to curb expenditure and improve collections has been put in place to improve the situation.

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
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43. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The municipality will continue to operate as a going concern for at least the next 12 months.

44. Events after the reporting date

The following events occurred after year end.

1. The sending of key members of management on special leave pending investigations into allegation of financial mismanagement.

45. Unauthorised expenditure

Unauthorised expenditure-Opening balance	197,093,536	125,209,070
Incurring during the year	121,258,177	71,884,466
Closing balance	318,351,713	197,093,536

Details of Unauthorised expenditure	Disciplinary steps taken	Amount
MIG grant not used for its intended purpose	None	R15,316,082
Overexpenditure on budget	None	R105,942,095
		R121,258,177

46. Fruitless and wasteful expenditure

Opening Balance	5,477,641	-
Penalties and Interest	11,133,684	5,477,641
Tenders advertised and validity expired without adjudication	139,878	-
Consultant paid without skills transfer as per agreement	348,684	-
Closing balance	17,099,887	5,477,641

Details of fruitless and wasteful expenditure	Disciplinary steps taken	Amount
Interest and penalties on late payments	None	R11,133,684
Tenders advertised where the validity expired without adjudication	None	R139,878
Consultants paid without performing as per agreement or contract	None	R348,684
		R17,099,887

47. Irregular expenditure

Opening balance	243,387,203	33,208,928
Additional expenditure	-	210,178,275
Closing balance	243,387,203	243,387,203

Details of irregular expenditure – current year

-

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
48. Additional disclosure in terms of Municipal Finance Management Act		
Material losses through distribution of water losses		
Opening balance	27,112	22,698
Purchases during the year	4,369,620	4,519,924
Recorded Billing during the year	(637,704)	(2,062,553)
Distribution losses	(3,714,605)	(2,452,957)
	44,423	27,112
Distribution losses (R)	R 14 004 061	8 793 734
Electricity losses		
Total KW in Units	61,568,648	70,859,380
Total distributed/consumed	(41,334,053)	(41,982,143)
Distribution loss in KW/Units	20,237,615	28,877,237
	40,472,210	57,754,474
Distribution losses in (R)	R 16 148 757	17 615 114
PAYE and UIF		
Opening balance	844,475	726,687
Current year subscription / fee	10,855,616	10,381,114
Amount paid - current year	(7,482,389)	(10,263,326)
	4,217,702	844,475
Pension and Medical Aid Deductions		
Opening balance	1,308,002	387,476
Current year subscription / fee	19,380,668	11,556,911
Amount paid - current year	(15,780,000)	(10,636,385)
	4,908,670	1,308,002

Thabazimbi local municipality

Financial Statements for the year ended June 30, 2014

Notes to the Financial Statements

Figures in Rand 2014 2013

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2014:

June 30, 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr F Loots	1,120	-	1,120
Cllr RA Ramogale	2,755	-	2,755
Cllr PA Mosito	(885)	-	(885)
Cllr MM Moselane	10,327	33,838	44,165
Cllr ME Semadi	359	-	359
Cllr M Fischer	3,067	21,877	24,944
Cllr PA Scruton	6,684	45	6,729
Cllr DA Moatshe	(1,063)	(63)	(1,126)
Cllr CS Sikwane	4,798	1,838	6,636
Cllr AS Khumalo	593	-	593
Cllr TD Molefe	758	3,197	3,955
Cllr DA Moatshe	344	-	344
	28,857	60,732	89,589
<hr/>			
June 30, 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr P.A. Scruton	7,918	1,937	9,855
Cllr M. Moselane	5,263	2,303	7,566
Cllr T.D. Molefe	1,238	1,087	2,325
Cllr G.S. Lerumo	1,414	4,601	6,015
Cllr H.J. Joubert	1,218	17,022	18,240
Cllr C.S. Sikwane	1,426	31	1,457
Cllr J.M. Fischer	2,238	13,788	16,026
	20,715	40,769	61,484

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Thabazimbi local municipality
Appendix A

Schedule of external loans as at 30 June 2014

Loan Number	Redeemable	Balance at June 30, 2013 Rand	Loan Capital Repayments made Rand	Balance at s at , June 30, 2014 Rand
Development Bank of South Africa				
Streets and Stormwater	10719/101 30/09/2018	4,088,548	459,233	3,629,315
Resealing of streets	10916/303 31/03/2018	165,961	10,615	155,346
Upgrade Sewer Purification Works	13523/101 31/03/2018	232,893	23,666	209,227
Upgrade Sewer Purification Works	10916/203 31/03/2018	174,442	10,886	163,556
Electricity Lalf 15498	12945/101 31/06/2015	815,063	386,676	428,387
Upgrade Eletricity Networks	10916/103 31/03/2018	399,926	46,316	353,610
Leeupoort Lalf 15327	12386/101 31/12/2011	195,926	193,818	2,108
Northam Lalf 15330	12391/5/6/7 31/12/2012	24,551	24,210	341
Regorogile Road Brick Paving	101958/1 30/06/2016	1,588,713	645,342	943,371
		7,686,023	1,800,762	5,885,261
Total external loans				
Development Bank of South Africa		7,686,023	1,800,762	5,885,261
		7,686,023	1,800,762	5,885,261

Thabazimbi local municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld	Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	R non
	Jul	Nov	Mar	Jun	Sep	Nov	Mar	Jun				
Financial Management Grant (FMG)	1,550,000	-	-	-	523,586	606,241	179,535	240,639	-		Yes	
Municipal Systems Improvement Grant (MSIG)	890,000	-	-	-	690,333	199,667	-	-	-		Yes	
Municipal Infrastructure Grant (MIG)	12,776,000	14,485,000	-	-	3,082,863	3,237,915	-	-	12,758,000	Misappropriation of conditional grants	No	Misus
Equitable Shares	12,389,000	20,043,000	15,032,000	-	12,389,000	20,043,000	15,032,000	-	12,665,000	Misappropriation of conditional grants	No	Misus
Expanded Public Works Programme Incentive Grant(EPWP)	400,000	400,000	600,000	-	369,364	30,636	240,000	240,000	-		Yes	
	28,005,000	34,928,000	15,632,000	-	17,055,146	24,117,459	15,451,535	480,639	25,423,000			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.