THABO MOFUTSANYANA DISTRICT MUNICIPALITY
Financial statements
for the year ended 30 June 2017
Auditor General of South Africa

General Information

Legal form of entity	District Municipality (DC 19)
Mayoral committee	
Executive Mayor	Mrs. M Vilakazi
	Mr. MM Radebe (Chief Whip) (Office term ended August 2016)
	Mrs. SJ Mbiwe (Chief Whip)
	Mr. M Maduna (Speaker)
	Ms. M Motloung (MPAC Chair) (Office term ended August 2016)
	Mr. MM Twala (MPAC Chair)
	Mr. K Tsoene
	Mr. G Bengell
	Mr. A Nhlapo
	Mrs. J Radebe
	Ms. S Visagie
	Mr. T Thebe
	Ms. N Mofokeng
	Mrs. T Tshabalala
Councillors	Mr. G Mokotso
	Mr. BL Venter
	Mr. S Mkhwanazi
	Mr. M Mamba
	Mr. TI Mkhwanazi
	Mr. M Motaung
	Mr. P Khanye
	Ms. M Maleka
	Mr. T Jakobo
	Mrs. M Ndlebe
	Mr. M Hlakane
	Mr. P de Wet
	Ms. D Taetsane
	Ms. T Letaona
	Mr. M Mokoena
	Ms. V Mohala
	Mr. R Bath
	Ms. M Sempe
	Mr. B Sani
	Ms. B Miya
	Ms. P Makae
	Mr. T Moloi
	Mr. M Majake
	Ms O Tolofi
	Mr. M Lebesa
	Mrs. A Oats
	Mr. L Nhlapo
	Mr. M Botha
	Mr. S Tshabalala
	Mr. T Mosikidi (Office term ended August 2016)
	Ms. P Lebesana (Office term ended August 2016)
	Mr. PB Beukes (Office term ended August 2016)
	Ms. MA Mokoena (Office term ended August 2016)

General Information

	Ms. HE Mokoena (Office term ended August 2016) Mr. TJ Tseki (Office term ended August 2016) Mr. T Ramaele (Office term ended August 2016) Mr. MA Nhlapo (Office term ended August 2016) Ms. T Tigeli (Office term ended August 2016) Ms. MR Naido (Office term ended August 2016) Ms. TN Masiteng (Office term ended August 2016) Mr. S Nkopane (Office term ended August 2016) Mr. I Vries (Office term ended August 2016) Mr. CHE Badenhorst (Office term ended August 2016) Mr. R Ndlebe (Office term ended August 2016) Ms. Z Tshabalala (Office term ended August 2016) Ms. N Taylor (Office term ended August 2016) Ms. C Msibi (Office term ended August 2016) Mr. L Kere (Office term ended August 2016) Mr. P Mavundla (Office term ended August 2016) Ms. M Nakedi(Office term ended August 2016) Ms. P Sibeko (Office term ended August 2016) Mr. SE Tshabalala (Office term ended August 2016) Ms. Y Jacobs (Office term ended August 2016) Ms. E Mohoaladi (Office term ended August 2016) Mr. S Motaung (Office term ended August 2016)
Grading of local authority	Grade 11
Accounting Officer	Ms. TPM Lebenya
Chief Finance Officer (CFO)	Mr. HI Lebusa
Business address	1 Mampoi Street Old Parliament Building Witsieshoek 9870
Postal address	Private Bag X810 Witsieshoek 9870
Bankers	ABSA FNB
Auditors	Auditor General of South Africa
Attorneys	Rampai Attorneys

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Abbreviations

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

Accounting Officer's Responsibilities and Approval

The accounting officers 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 officers to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

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

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

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

The accounting officers are 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 officers have reviewed the municipality’s cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The financial statements set out on pages 7 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2017

SK Khote
Acting Municipal Manager

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017. We submit this report in line with the provision of section 166(2) of the Municipal Finance Management Act for Council's consideration.

Audit committee members and attendance

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

Name of member	Number of meetings attended
Mr. GA Ntsala (Chairperson) (Term ended 31 December 2016)	3
Mr. MK Mojatau (Member) (Appointed Chairperson 1 April 2017)	6
Mr. TE Femele (Member)	5
Ms. SD Lebeko (Member) (Term ended 31 December 2016)	2
Mr. ST Morare (Member) (appointment 1/04/2017)	2
Ms. MS Ried (Member) (appointment 1/06/2017)	0

Audit committee responsibility

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

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

The effectiveness of internal control

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

Evaluation of financial statements

The audit committee has:

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

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

Internal audit

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

Auditor-General of South Africa

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

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Chairperson of the Audit Committee

Date: ______________________

Report of the Auditor General

To the Provincial Legislature of THABO MOFUTSANYANA DISTRICT MUNICIPALITY

Report on the financial statements

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

Responsibility of the Accounting Officer for the financial statements

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

Responsibility of the Auditor-General

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

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

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

An audit also includes evaluating the:

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

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

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

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

Auditor General of South Africa

30 June 2018

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

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

2. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated deficits of (R2 983 658) and that the municipality's total liabilities exceed its assets by (R7 421 075).

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

3. Subsequent events

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

4. Accounting policies

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

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are:

SK Khote	Appointed 01 August 2017
TPM Lebenya	Resigned 31 July 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	4	1 459 518	1 025 283
VAT receivable	5	2 206 405	1 185 490
Cash and cash equivalents	6	249 450	737 869
		3 915 373	**2 948 642**
Non-Current Assets			
Property, plant and equipment	7	9 669 839	9 796 909
Intangible assets	8	4 322 358	3 266 741
		13 992 197	**13 063 650**
Total Assets		**17 907 570**	**16 012 292**
Liabilities			
Current Liabilities			
Finance lease obligation	9	386 516	1 168 376
Payables from exchange transactions	10	16 011 129	10 144 132
Unspent conditional grants and receipts	11	-	443 825
		16 397 645	**11 756 333**
Non-Current Liabilities			
Finance lease obligation	9	-	386 508
Employee benefit obligation	12	8 931 000	8 608 000
		8 931 000	**8 994 508**
Total Liabilities		**25 328 645**	**20 750 841**
Net Assets		**(7 421 075)**	**(4 738 549)**

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

* See Note 35

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Sundry income	15	180 961	234 006
Interest received - investments	14	1 147 633	1 172 745
Total revenue from exchange transactions		**1 328 594**	**1 406 751**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	13	103 660 952	102 798 196
Total revenue	38	**104 989 546**	**104 204 947**
Expenditure			
Employee related costs	20	(57 953 889)	(50 992 539)
Remuneration of councillors	20	(10 019 248)	(10 545 789)
Depreciation and amortisation	17	(4 402 270)	(3 562 182)
Debt impairment	16	-	(90 641)
Finance costs	18	(182 787)	(388 419)
Repairs and maintenance	21	(2 257 620)	(2 218 222)
Contracted services	36	(556 011)	(2 067 580)
Grants and subsidies paid	37	(2 031 579)	(1 610 414)
General Expenses	19	(30 569 800)	(47 988 334)
Total expenditure		**(107 973 204)**	**(119 464 120)**
Operating deficit		**(2 983 658)**	**(15 259 173)**
Deficit for the year		**(2 983 658)**	**(15 259 173)**

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

* See Note 35

Statement of Changes in Net Assets

Figures in Rand	Accumulated loss	Total net assets
Balance at 01 July 2014 as restated	**5 938 058**	**5 938 058**
Changes in net assets		
Surplus / (Deficit) for the year	(15 259 173)	(15 259 173)
Total changes	(15 259 173)	(15 259 173)
Restated* Balance at 01 July 2016	**(4 437 417)**	**(4 437 417)**
Changes in net assets		
Surplus / (Deficit) for the year	(2 983 658)	(2 983 658)
Total changes	(2 983 658)	(2 983 658)
Balance at 30 June 2017	**(7 421 075)**	**(7 421 075)**

Note(s)

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

* See Note 35

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Grants		103 026 627	103 704 289
Interest income		1 147 633	1 172 745
Other receipts		180 961	212 853
		104 355 221	105 089 887
Payments			
Employee costs		(66 788 450)	(60 396 272)
Suppliers		(30 859 436)	(59 797 783)
Finance costs		(182 787)	(388 118)
Benefits paid relating to long service awards		(331 000)	(177 000)
		(98 161 673)	(120 759 173)
Net cash flows from operating activities	22	**6 193 548**	**(15 669 286)**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(3 207 867)	(2 885 246)
Proceeds from sale of property, plant and equipment	7	99 216	15 286 181
Purchase of other intangible assets	8	(2 222 165)	(1 058 779)
Net cash flows from investing activities		**(5 330 816)**	**11 342 156**
Cash flows from financing activities			
Finance lease payments		(1 351 155)	(1 451 371)
Net increase/(decrease) in cash and cash equivalents		**(488 423)**	**(5 778 501)**
Cash and cash equivalents at the beginning of the year		737 869	6 516 364
Cash and cash equivalents at the end of the year	6	**249 446**	**737 863**

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

* See Note 35

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sundry income	4 408 985	-	**4 408 985**	180 961	**(4 228 024)**	39.1
Interest received - investment	1 264 250	-	**1 264 250**	1 147 633	**(116 617)**	
Total revenue from exchange transactions	**5 673 235**	**-**	**5 673 235**	**1 328 594**	**(4 344 641)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	103 281 146	-	**103 281 146**	103 660 952	**379 806**	
Total revenue	**108 954 381**	**-**	**108 954 381**	**104 989 546**	**(3 964 835)**	
Expenditure						
Personnel	(53 175 345)	-	**(53 175 345)**	(57 953 889)	**(4 778 544)**	
Remuneration of councillors	(9 252 044)	-	**(9 252 044)**	(10 019 248)	**(767 204)**	
Depreciation and amortisation	(3 502 618)	-	**(3 502 618)**	(4 402 270)	**(899 652)**	39.2
Finance costs	-	-	**-**	(182 787)	**(182 787)**	39.3
Repairs and maintenance	(1 875 000)	-	**(1 875 000)**	(2 257 620)	**(382 620)**	39.4
Contracted Services	(760 000)	-	**(760 000)**	(556 011)	**203 989**	39.5
Grants and subsidies paid	(810 000)	-	**(810 000)**	(2 031 579)	**(1 221 579)**	39.6
General Expenses	(36 388 095)	-	**(36 388 095)**	(30 569 800)	**5 818 295**	39.7
Total expenditure	**(105 763 102)**	**-**	**(105 763 102)**	**(107 973 204)**	**(2 210 102)**	
(Deficit) / Surplus	**3 191 279**	**-**	**3 191 279**	**(2 983 658)**	**(6 174 937)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**3 191 279**	**-**	**3 191 279**	**(2 983 658)**	**(6 174 937)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	2 705 258	-	**2 705 258**	1 459 518	**(1 245 740)**	39.8
VAT receivable	-	-	**-**	2 206 405	**2 206 405**	39.9
Cash and cash equivalents	313 474	-	**313 474**	249 450	**(64 024)**	39.10
	3 018 732	**-**	**3 018 732**	**3 915 373**	**896 641**	
Non-Current Assets						
Property, plant and equipment	9 240 816	-	**9 240 816**	9 669 839	**429 023**	
Intangible assets	2 339 345	-	**2 339 345**	4 322 358	**1 983 013**	39.11
	11 580 161	**-**	**11 580 161**	**13 992 197**	**2 412 036**	
Total Assets	**14 598 893**	**-**	**14 598 893**	**17 907 570**	**3 308 677**	
Liabilities						
Current Liabilities						
Finance lease obligation	723 376	-	**723 376**	386 516	**(336 860)**	39.12
Payables from exchange transactions	9 136 040	-	**9 136 040**	16 011 130	**6 875 090**	39.13
	9 859 416	**-**	**9 859 416**	**16 397 646**	**6 538 230**	
Non-Current Liabilities						
Operating lease liability	1 159 539	-	**1 159 539**	-	**(1 159 539)**	39.12
Employee benefit obligation	8 608 000	-	**8 608 000**	8 931 000	**323 000**	
	9 767 539	**-**	**9 767 539**	**8 931 000**	**(836 539)**	
Total Liabilities	**19 626 955**	**-**	**19 626 955**	**25 328 646**	**5 701 691**	
Net Assets	**(5 028 062)**	**-**	**(5 028 062)**	**(7 421 076)**	**(2 393 014)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated loss	(5 028 062)	-	**(5 028 062)**	(7 421 076)	**(2 393 014)**	

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

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgements include:

Receivables

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

Impairment testing

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

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

Property, plant and equipment

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

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

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provision for long service awards

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

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

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

Impairment of receivables

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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

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

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

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

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

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

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

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

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

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

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

1.4 Intangible assets

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

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

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

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

1.4 Intangible assets (continued)

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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

1.5 Investments

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

1.6 Financial instruments

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

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

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

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

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

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

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

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

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

1.6 Financial instruments (continued)

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Classification

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

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

Accounting Policies

1.6 Financial instruments (continued)

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

1.6 Financial instruments (continued)

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

Accounting Policies

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

Financial liabilities

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

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

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

Presentation

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

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

Accounting Policies

1.6 Financial instruments (continued)

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

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

Receivables from exchange transactions

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

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

Payables from exchange transactions

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdraft and borrowings

Bank overdraft and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

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

1.7 Leases

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

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

1.7 Leases (continued)

Finance leases - lessee

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

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

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

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

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

Operating leases - lessee

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

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

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.9 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Accounting Policies

1.10 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

Short-term employee benefits

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

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

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

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

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

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

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

Provision for long service awards

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

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

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

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

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

Post retirement obligations - medical aid

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

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

1.11 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

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

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

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

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

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

Accounting Policies

1.11 Provisions and contingencies (continued)

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

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

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

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

1.12 Revenue from exchange transactions (continued)

Interest received

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

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

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

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

1.13 Revenue from non-exchange transactions

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

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

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

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

Recognition

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

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

1.13 Revenue from non-exchange transactions (continued)

Measurement

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

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

Taxes

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

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.14 Investment income

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

1.15 Comparative figures

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

1.16 Unauthorised expenditure

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

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

1.17 Fruitless and wasteful expenditure

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

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

1.18 Irregular expenditure

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

1.18 Irregular expenditure (continued)

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

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

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

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

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

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

1.19 Use of estimates

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

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

1.20 Segment information

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

1.21 Offsetting

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

Accounting Policies

1.22 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives. Deviations between budget and actual amounts are regarded as material differences when more than 10% deviation exists. Refer to Note 39 for all material differences explained.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30. The financial statements are prepared on the accrual basis of accounting, and the budget is prepared on the accrual basis. A comparison with the budgeted amounts for the reporting period has been included in the Statement of comparison of budget and actual amounts.

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

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

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

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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

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

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

1.24 Events after reporting date

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

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

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

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

Accounting Policies

1.25 Conditional grants and receipts

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

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

Recognition

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

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

Measurement

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

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

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

1.26 Commitments

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

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2017 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

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

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

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

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:
- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

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

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

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

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

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

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

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

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

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

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

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

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

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

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

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

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

2. New standards and interpretations (continued)

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

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

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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

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

GRAP 109: Accounting by Principals and Agents

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

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

GRAP 108: Statutory Receivables

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

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

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

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

3. Financial assets by category

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

2017	Financial assets at amortised cost	Total
Receivables from exchange transactions	1 459 518	1 459 518
Cash and cash equivalents	249 450	249 450
VAT Receivables	2 206 405	2 206 405
	3 915 373	**3 915 373**

2016	Financial assets at amortised cost	Total
Receivables from exchange transaction	1 025 283	1 025 283
Cash and cash equivalents	737 869	737 869
VAT Receivables	1 185 490	1 185 490
	2 948 642	**2 948 642**

Notes to the Financial Statements

Figures in Rand	2017	2016

4. Receivables from exchange transactions

Sundry debtors	1 088 515	746 005
Fleet management receivables	91 725	-
Suspense account - unidentified payment	304 143	304 143
Underpayment of PAYE	22 292	22 292
Seconded councillor's salaries over payment	1 784 288	1 784 288
Councillors over payments	729 842	729 842
Impairment provision	(2 561 287)	(2 561 287)
	1 459 518	**1 025 283**

Suspense account - unidentified payment

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

Credit quality of trade and other receivables

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

Receivables from exchange transactions impaired

As of 30 June 2017, R 2,561,287 (2016: R 2,561,287) sundry receivables from exchange transaction were impaired and provided for.

The ageing of these receivables is as follows:

3 to 6 months	373 002	93 292
Over 6 months	3 647 803	3 493 278
	4 020 805	**3 586 570**

Reconciliation of impairment of receivables from exchange transactions

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

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

5. VAT receivable

VAT	2 206 405	1 185 490

The municipality accounts for VAT on the payment basis.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	207 768	35 223
Short-term deposits	41 682	702 646
	249 450	**737 869**

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2017	Bank statement balances 30 June 2016	Bank statement balances 30 June 2015	Cash book balances 30 June 2017	Cash book balances 30 June 2016	Cash book balances 30 June 2015
ABSA BANK - Account Type - 770-150-841	207 768	35 233	769 756	207 768	35 223	769 756
ABSA BANK - Account Type - 206-206-4985	-	78 445	198 531	-	78 445	198 531
FNB BANK - Account Type - 712-733-40226	-	563 188	3 816 442	-	563 188	3 816 442
ABSA BANK - Account Type - 207-523-7209	36 193	61 013	1 731 635	36 193	61 013	1 731 635
ABSA BANK - Account Type - 932-530-0160	5 489	-	-	5 489	-	-
Total	**249 450**	**737 879**	**6 516 364**	**249 450**	**737 869**	**6 516 364**

7. Property, plant and equipment

	2017 Cost / Valuation	2017 Accumulated depreciation and accumulated impairment	2017 Carrying value	2016 Cost / Valuation	2016 Accumulated depreciation and accumulated impairment	2016 Carrying value
SMME Equipment	740 523	(88 720)	651 803	-	-	-
Furniture and fixtures	4 185 161	(2 524 888)	1 660 273	4 158 337	(2 103 992)	2 054 345
Motor vehicles	2 681 230	(1 822 343)	858 887	2 681 230	(1 357 368)	1 323 862
IT equipment	10 273 223	(5 312 834)	4 960 389	7 972 401	(3 790 532)	4 181 869
Leased assets	3 435 483	(1 896 996)	1 538 487	3 453 048	(1 216 215)	2 236 833
Total	**21 315 620**	**(11 645 781)**	**9 669 839**	**18 265 016**	**(8 468 107)**	**9 796 909**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
SMME Equipment	-	740 523	-	(88 720)	651 803
Furniture and fixtures	2 054 345	26 823	-	(420 895)	1 660 273
Motor vehicles	1 323 862	-	-	(464 975)	858 887
IT equipment	4 181 869	2 440 521	(88 302)	(1 573 699)	4 960 389
Leased assets	2 236 833	-	(10 914)	(687 432)	1 538 487
	9 796 909	**3 207 867**	**(99 216)**	**(3 235 721)**	**9 669 839**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Furniture and fixtures	2 370 963	111 613	-	-	(428 231)	2 054 345
Motor vehicles	1 776 675	-	-	-	(452 813)	1 323 862
IT equipment	5 210 182	326 580	-	(6 604)	(1 348 289)	4 181 869
Infrastructure - Work in progress	12 839 128	2 447 053	(15 286 181)	-	-	-
Leased assets	2 926 867	-	-	-	(690 034)	2 236 833
	25 123 815	**2 885 246**	**(15 286 181)**	**(6 604)**	**(2 919 367)**	**9 796 909**

Notes to the Financial Statements

Figures in Rand	2017	2016

7. Property, plant and equipment (continued)

Office equipment with a carrying value of R 2,236,833 (2016: R 2,926,867) is leased under a finance lease.

8. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	7 374 708	(3 052 350)	4 322 358	5 152 543	(1 885 802)	3 266 741

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	3 266 741	2 222 165	(1 166 548)	4 322 358

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 938 975	1 058 779	(731 013)	3 266 741

9. Finance lease obligation

	2017	2016
Minimum lease payments due		
- within one year	414 667	1 350 175
- in second to fifth year inclusive	-	414 667
	414 667	1 764 842
less: future finance charges	(28 159)	(209 957)
Present value of minimum lease payments	**386 508**	**1 554 885**
Present value of minimum lease payments due		
- within one year	386 508	1 168 376
- in second to fifth year inclusive	-	386 508
	386 508	**1 554 884**
Non-current liabilities	-	386 508
Current liabilities	386 516	1 168 376
	386 516	**1 554 884**

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

The average lease term is 3 years and the average effective borrowing rate was 9% to 23% (2016: 9% to 30%).

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

Notes to the Financial Statements

Figures in Rand	2017	2016

10. Payables from exchange transactions

Trade payables	9 137 612	4 415 289
Accrued leave pay	4 328 349	3 504 067
Accrued bonus	1 124 139	1 086 733
Other payables	1 014 869	826 153
Councillors pension funds	4 020	4 020
UIF over deducted from employees	193 496	193 496
Councillors salaries under payments	6 637	6 637
Metropolitan	251	251
Fleet management payables	201 756	107 486
	16 011 129	**10 144 132**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Rural Roads Assets Management System Grant	-	443 825

Movement during the year		
Balance at the beginning of the year	443 826	214 984
Additions during the year	5 302 627	6 264 039
Income recognition during the year	(5 746 453)	(5 820 213)
Deducted from equitable share grant	-	(214 984)
	-	**443 826**

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

See note 13 for reconciliation of grants from National/Provincial Government.

Notes to the Financial Statements

Figures in Rand	2017	2016

12. Provisions

Long service awards

Valuation method

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

Defined benefit obligation

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

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

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

Long service award

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

The amount recognised in the statement of financial position are as follows for 2017:

	Long-service leave benefits	Post-retirement health care benefits	Total
Balance as at 30 June 2017	(2 868 000)	(5 740 000)	(8 608 000)
Current service	(425 000)	(149 000)	(574 000)
Interest cost	(263 000)	(558 000)	(821 000)
Actuarial (loss) - change in financial assumption	172 000	712 000	884 000
Actuarial (loss) - experience variance	102 000	(245 000)	(143 000)
Benefits payments	203 000	128 000	331 000
	(3 079 000)	**(5 852 000)**	**(8 931 000)**

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

	Long-service leave benefits	Post-retirement health care benefits	Total
Balance as at 30 June 2016	(2 206 000)	(5 171 000)	(7 377 000)
Current service	(375 000)	(136 000)	(511 000)
Interest cost	(212 000)	(484 000)	(696 000)
Actuarial (loss) - change in financial assumption	(40 000)	(1 000)	(41 000)
Actuarial (loss) - change in demographic assumptions	(82 000)	-	(82 000)
Actuarial (loss) - experience variance	(29 000)	(49 000)	(78 000)
Benefits payments	76 000	101 000	177 000
	(2 868 000)	**(5 740 000)**	**(8 608 000)**

12. Provisions (continued)

Discount rate

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

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 15 years for post-retirement health care and 7 years for long service award, the expected duration of the liability based on the current membership data, as at 30 June 2017.

Key assumptions used
The economic assumptions for the 30 June 2017 valuation are shown in the table below, and compared to those used for the previous valuation.

	30 June 2016	30 June 2017
Gross discount rate - Long service award	8,80%	8,70%
Gross discount rate - Medical aid	9,70%	10,00%
Healthcare cost inflation	9,30%	8,80%
Salary inflation	8,50%	7,50%
Net discount rate - Long service award	0,28%	1,12%
Net discount rate - Medical aid	0,37%	1,10%

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

Current employees	2017	2016
- Number of current employees		
Males	5	5
Females	1	1
- Average age of employees		
Males	57,6	56,6
Females	50,6	49,6
- Average years of past service		
Male	25,3	24,3
Female	18,7	27,7
- Average total monthly premium of Principal members (R)		
Male	R 3,697	R 3,248
Female	R 2,977	R 2,756
- Average total monthly premium of Adult dependants (R)		
Male	R 2,647	R 2,208
Female	R 1,601	R 1,482

Continuation members		
- Number of continuation members		
Male	1	1
Female	2	2
-Average age of continuation members		
Male	66,7	65,7
Female	70,2	69,2
- Actual percentage married		
Male	100%	100%
Female	0%	0%
- Average total monthly premium of Principal members (R)		
Male	R 2,964	R 2,695
Female	R 5,490	R 4,902
- Average total monthly premium of Adult dependants (R)		
Male	R 2,144	R 1,865
Female	R 3,940	R 3,373

12. Provisions (continued)

Breakdown of Defined Benefit Obligation

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

Breakdown of defined benefit obligation (R'000)	30 June 2015	30 June 2016	30 June 2017
Active members	(3 929)	(3 675)	(3 800)
Continuation members	(1 242)	(2 065)	(2 052)
	(5 171)	**(5 740)**	**(5 852)**

Post-retirement healthcare subsidy sensitivities

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

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

Healthcare cost inflation sensitivity (R'000)	1% decrease	Base (8,80%)	1% increase
Defined benefit obligation	(5 078)	(5 852)	(6 792)
Service cost (next financial year)	(129)	(154)	(183)
Interest cost (next financial year)	(509)	(588)	(683)
	(5 716)	**(6 594)**	**(7 658)**

Assumptions used

The economic assumptions for the 30 June 2017 valuation are shown in the table below, and compared to those used for the respective roll-back valuations.

Summary of economic assumptions (rates are per annum)	30 June 2016	30 June 2017
Gross discount rate	9,70%	10,00%
Healthcare cost inflation	9,30%	8,80%
Net discount rate	0,37%	1,10%

12. Provisions (continued)

Healthcare cost inflation

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

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

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

The CPI inflation assumption using this methodology is 6.80% as at 30 June 2017. Thus, the healthcare cost inflation has been set as 8.80% at the valuation date, after allowing for a margin of 2% over CPI inflation.

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

Net discount rate

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

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

The net discount rate therefore depends on the relationship between the gross discount rate and the healthcare cost inflation rate respectively. Using the gross discount and healthcare cost inflation rates as shown above, the resulting net discount rate is 1.10% (calculated as (1 + discount rate)/(1 + healthcare cost inflation rate) – 1) for the 30 June 2017 valuation.

Demographic assumptions

This section contains the demographic assumptions used in the valuation. The mortality tables used have not been presented, as they are standard tables, which are widely used.

The demographic assumptions for the 30 June 2017 valuation and compared to those used for the previous valuations are shown in the tables below.

Summary of key demographic assumptions	30 June 2016 & 2017
Pre-retirement mortality	SA85-90 L rated down 1 year for males and females
Post-retirement mortality	PA(90) rated down 1 year for males and females plus 1% future mortality improvement from 2010
Withdrawal	See rationale for demographic assumption below
Expected retirement age	63 years for males and females
Percentage married for in-service members	See rationale for demographic assumption below
Spouse and principal member age difference	Male 3 years older than female
Employees' continuation percentage at retirement	90.00%

Notes to the Financial Statements

Figures in Rand	2017	2016

12. Provisions (continued)

Percentage of widows continuing membership	90.00%	

Rationale for demographic assumptions

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

Pre-retirementmortality

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

Post-retirementmortality

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

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

Withdrawal assumption

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

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

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

Notes to the Financial Statements

Figures in Rand	2017	2016

12. Provisions (continued)

Assumed retirement age

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

Spouse and principalmember age difference

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

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

Child dependants

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

Percentage married assumption

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

13. Government grants and subsidies

Operating grants		
Equitable share	97 724 000	96 977 983
Financial Management Grant	1 250 000	1 250 000
Department of Public Works Programme	1 120 000	1 208 000
Rural Roads Assets Management System Grant	2 750 825	1 781 174
LG Seta skills development grant	105 277	92 964
Service SETA Grant	-	333 900
Municipal System Improvement Grant	-	930 000
TETA Grant	710 850	224 175
	103 660 952	**102 798 196**

Equitable Share

Current-year receipts	97 724 000	96 978 000
Tranfer to reveue	(97 724 000)	(96 763 000)
Conditions met - transferred to revenue	-	(215 000)
	-	**-**

Rural Roads Assets Management System Grant

Balance unspent at beginning of year	443 825	214 983
Current-year receipts	2 307 000	2 225 000
Conditions met - transferred to revenue	(2 750 825)	(1 781 175)
Transferred from Equitable Share	-	(214 983)
	-	**443 825**

Notes to the Financial Statements

Figures in Rand	2017	2016

13. Government grants and subsidies (continued)

Department of Public Works Programme

Current-year receipts	1 120 000	1 208 000
Conditions met - transferred to revenue	(1 120 000)	(1 208 000)
	-	-

Finance Management Grant

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

Municipal System Improvement Grant (MSIG)

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

TETA Grant

Current-year receipts	710 850	224 175
Conditions met - transferred to revenue	(710 850)	(224 175)
	-	-

LG Seta - skills development grant

Current-year receipts	105 277	92 964
Conditions met - transferred to revenue	(105 277)	(92 964)
	-	-

Service SETA Grant

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

14. Interest received - investments

Interest revenue		
Bank	1 147 633	1 172 745

The amount included in Investment revenue arising from exchange transactions amounted to R 1,147,633.

15. Sundry income

Tender documents	49 183	21 500
Other income / Unallocated deposits recognised in the current year	102 312	212 506
	151 495	**234 006**

Notes to the Financial Statements

Figures in Rand	2017	2016

16. Debt impairment

Impairments		
Contribution to doubtful debt allowance	-	90 641

17. Depreciation and amortisation

Property, plant and equipment	3 235 722	2 831 169
Intangible assets	1 166 548	731 013
	4 402 270	**3 562 182**

18. Finance costs

Finance leases	182 787	388 419

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 182,787 (2016: R 388,419).

19. General expenses

Advertising	1 079 144	1 068 340
Auditors remuneration	2 209 871	2 244 353
Bank charges	86 149	274 231
Cleaning and consumables	92 301	69 342
Catering	1 353 080	1 534 152
ICT and programming	4 359 675	2 964 512
Disaster intervention	901 393	123 697
Entertainment	-	88 842
Donation	472 567	226 870
Insurance	349 098	144 465
Events management	1 014 376	1 709 483
Motor vehicle expenses	1 505 059	984 222
SCM Electronic system	-	145 440
EPWP incentive grant - salaries expenditure	2 448 424	4 871 052
Placement fees	1 924	21 926
Poverty alleviation expense - food security expense	688 003	1 107 703
Printing and stationery	1 118 623	697 716
Uniform and protective clothing	72 813	369 549
Transport	1 517 061	1 463 840
Subscriptions and membership fees	716 084	534 450
Telephone and fax	1 043 367	1 017 700
Training	806 851	734 459
Travel and subsistence	2 953 343	3 499 934
Legal fees	1 314 505	1 682 953
Service SETA Learnership	710 850	542 175
MFMA programme - accounting support expenditure	563 814	936 315
District audit committee	227 613	265 176
Sampling of food and water	261 818	387 605
Veterinary department	29 466	-
Bursary fund	1 261 185	1 389 705
Sports development programme	-	208 998
Lease rentals on operating lease	1 341 593	1 392 948
Donation of asset	69 750	15 286 181
	30 569 800	**47 988 334**

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

Notes to the Financial Statements

Figures in Rand	2017	2016

20. Remuneration related cost

Basic	42 111 805	36 540 870
Bonus	2 456 889	2 036 656
Medical aid - company contributions	3 335 672	2 637 969
UIF	194 821	192 494
SDL	541 671	473 113
Other payroll levies	25 146	724 551
Leave pay provision charge	824 282	294 513
Overtime payments	737 381	486 038
Long-service awards	323 000	1 231 000
Car allowance	5 322 765	4 909 943
Housing benefits and allowances	204 792	201 244
Cellphone allowance	429 000	376 000
Leave redemption	1 446 665	888 148
	57 953 889	**50 992 539**

Remuneration of Accounting Officer - Ms. TPM Lebenya

Annual Remuneration	1 015 866	1 019 092
Car allowance	228 000	228 000
Contributions to UIF, Medical and Pension Funds	72 412	67 417
Travel, motor car, accommodation, subsistence and other allowance	93 005	154 603
Cellphone allowance	18 000	18 000
Performance bonus	176 973	-
	1 604 256	**1 487 112**

Ms. TPM Lebenya was appointed as the Accounting Officer and commenced her term of office from 2 March 2015 to 31 July 2017.

Remuneration of Chief Financial Officer - Mr. HI Lebusa

Annual Remuneration	945 336	886 037
Car allowance	180 000	180 000
Performance Bonuses	157 570	111 945
Contributions to UIF, Medical and Pension Funds	339 681	22 885
Travel, motor car, accommodation, subsistence and other allowance	152 157	119 368
Cellphone	14 400	14 400
	1 789 144	**1 334 635**

Remuneration of Executive Manager Corporate Service - Mr. SK Khote

Annual Remuneration	896 351	837 395
Car allowance	205 000	205 000
Contributions to UIF, Medical and Pension Funds	13 879	11 943
Travel, motor car, accommodation, subsistence and other allowance	101 705	53 439
Cellphone	14 400	14 400
Performance bonus	139 462	-
	1 370 797	**1 122 177**

Mr. SK Khote - Executive Manager Corporate Service, was appointed as the acting municipal manager from 1 August 2017

Notes to the Financial Statements

Figures in Rand	2017	2016

20. Remuneration related cost (continued)

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

Mrs. P Selepe - Director Community Services from Maluti-A-Phofung Local Municipality, was seconded to act as a Director: Community Services of Thabo Mofutsanyana District Municipality from 1 June 2015 to the 31 December 2016. The remuneneration was paid by Maluti-A-Phofung Local Municipality.

Remuneration of councillors

Executive Mayor - Ms. M Vilakazi	974 810	1 013 079
Chief Whip - Mrs. SJ Mbiwe	509 831	-
Chief Whip - Mr. MM Radebe	72 345	634 857
Speaker - Mr. MS Maduna	651 724	404 983
Chairperson MPAC - Ms. M Motloung	26 643	350 185
Chairperson MPAC - Mr. M M Twala	240 946	-
Mayoral Committee Members	4 653 575	4 775 024
Councillors	2 889 374	3 370 661
	10 019 248	**10 548 789**

In-kind benefits

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

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

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

21. Repairs and maintenance

Maintenance buildings	452 948	413 465
Maintenance general	1 697 891	1 228 854
Maintenance rental equipment	106 782	575 903
	2 257 621	**2 218 222**

22. Cash (used in) generated from operation

Deficit	(2 983 658)	(15 259 173)
Adjustments for:		
Depreciation and amortisation	4 402 270	3 562 182
Finance costs - Finance leases	182 787	388 419
Impairment deficit	-	90 641
Movements in provision for long service awards	323 000	1 231 000
Gain on sale of assets	-	6 604
Changes in working capital:		
Receivables from exchange transactions	(434 235)	687 114
Payables from exchange transactions	6 168 124	(7 940 111)
VAT	(1 020 915)	1 335 196
Unspent conditional grants and receipts	(443 825)	228 842
	6 193 548	**(15 669 286)**

Figures in Rand	2017	2016

23. Financial liability by category

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

2017	Financial liabilities at amortised cost	Total
Finance lease - current	386 516	386 516
Payables from exchange transactions	10 558 642	10 558 642
	10 945 158	**10 945 158**

2016	Financial liabilities at amortised cost	Total
Finance lease - Non-current	386 508	386 508
Finance lease - current	1 168 376	1 168 376
Payables from exchange transactions	5 252 205	5 252 205
	6 807 089	**6 807 089**

24. Commitments

Commitments in respect of operating expenditure

Contracted for and authorised by accounting officer	2017	2016
• Development of rural road asset management system (RRAM for TMDM)	-	2 278 089
• Supply and delivery of SMME's Equipment	-	608 390
• Research, compile, design and printing of accomodation guide brouchures	-	99 500
• Management of telephone system for a period of three (3) years	1 051 879	-
• Internet Service Provider (ISP)	249 550	850 750
• Disaster Communication System	-	1 612 089
• Server based data backup and storage	1 901 530	-
• mSCOA Implementation	2 742 486	-
• Disaster recovery plan and hosting	1 353 175	2 599 000
• PricewaterhouseCoopers	-	326 164
• Electrification programme	6 000 000	-
	13 298 620	**8 373 982**

Total operational commitments		
Contracted for and authorised by accounting officer	13 298 620	8 373 982

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

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	934 103	434 363
- in second to fifth year inclusive	1 209 150	94 027
	2 143 253	**528 390**

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

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

Notes to the Financial Statements

Figures in Rand	2017	2016

25. Contingencies

Podbielski Mhlambi Attorneys vs Thabo Mofutsanyana:

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

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

Auditor General of South Africa vs Thabo Mofutsanyana

Office of the Auditor General has file a case against Thabo Mofutsanyana District Municipality for outstanding audit fee amounting to R 1,220,986.48 for the audit period 2015/16. The outstanding audit fee is made of audit over-runs and interest charged.

The municipality estimates that approximately R250 000 in legal fees to its attorneys Rmapai Attorneys will be incurred in defending this action as Auditor General of South Africa has issued a letter of demand to recover the audit fee.

Housing guarantees

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

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

Name of employee	Effective date	2017	2016
Mazibuko Mwelase	25/05/2005	17 000	17 000
Mollo Ngobese	22/03/2006	17 000	17 000
Moloi Khesa	25/05/2005	17 000	17 000
Moloi Materonko	08/10/2002	13 000	13 000
Motloung Sylvia	30/01/2007	17 000	17 000
Mthombeni Sthembiso	01/10/2004	14 000	14 000
Mani Koahela	01/07/2009	17 000	17 000
		112 000	**112 000**

26. Related parties

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

Related parties include:

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

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

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

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

27. Risk management

Financial risk management

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

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

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

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

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

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

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

27. Risk management (continued)

Liquidity risk

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

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

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

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

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

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

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

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	10 558 642	-	-	-
Gross finance lease obligation	414 667	-	-	-

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	5 252 205	-	-	-
Gross finance lease obligation	1 350 175	414 667	-	-

Credit risk

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

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

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

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

Receivables are presented net of an allowance for impairment.

27. Risk management (continued)

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

Financial instrument	2017	2016
ABSA Bank - Cheque account	207 768	35 223
ABSA Bank - Liquidity plus	5 489	-
ABSA Bank - Fixed deposit	36 193	61 013
ABSA Bank - Fixed deposit	-	78 445
First National Bank - Fixed deposit	-	563 188
Receivables from exchange transactions	1 459 518	1 025 283
VAT receivables	2 206 405	1 185 490

The entity is exposed to a number of guarantees for housing loans of employees. Refer to note 25 for additional details.

The balances represent the maximum exposure to credit risk.

Market risk

Cash flow and fair value interest rate risk

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

28. Going concern

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

During the year ended 30 June 2017, the municipality incurred a net loss of (R 2 983 658) and the municipality's total liabilities exceed its assets by (R 7 421 075), in addition the municipality has a possible obligation of R36 million pending the court ruling as disclosed in note 25.

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

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

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

29. Events after the reporting date

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

30. Unauthorised expenditure

Opening balance	10 840 549	2 816 833
Unauthorised expenditure - current year expenditure	3 229 865	8 023 716
Unauthorised expenditure - written off as irrecoverable	(10 840 549)	-
	3 229 865	**10 840 549**

30. Unauthorised expenditure (continued)

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

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

31. Fruitless and wasteful expenditure

Opening	184 457	-
Fruitless and wasteful expenditure - current year expenditure	-	184 457
Fruitless and wasteful expenditure - written of as irrecoverable	(184 457)	-
	-	**184 457**

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

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

32. Irregular expenditure

Opening balance	8 495 390	387 801
Less: Expenditure written-off to be recovered from debtor	(834 910)	-
Less: Expenditure written-off as irrecoverable	(8 384 352)	-
Expenditure - SCM none compliance incurred in the current year (see details below)	4 692 309	7 786 296
Overpayment - councillor remuneration	15 120	134 709
Overpayment - municipal manager remuneration	125 815	186 584
Remuneration paid for position not in the organisational structure	303 126	-
	4 412 498	**8 495 390**

Management has performed a review of transactions and identifiy transactions which did not comply with SCM Regulation, sec. 36 (emergency) to be irregular expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

33. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	601 941	500 000
Amount paid - current year	(601 941)	(500 000)
	-	**-**

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

Material losses through criminal conduct

The municipality incurred a material losses through criminal conduct during the reporting period.

Incident - Internet banking payment to fraudulent account

The municipality paid an amount of R1 535 097 on 28th April 2017 to a fraudulent account FNB bank account, the fraud case was reported to South African Police Services (SAPS) (case number 23/05/2017) at Phuthaditjhaba police station, an amount of R529 760 has been recovered thus far, therefore, the possible mateiral losses amount to R1 005 337, which is currently under investigation by Police, FNB and ABSA forensic department. This balance has been disclosed under General Expense Note. 19 Disaster Intervention

Incident - Fleet card misused theft

Municipal employee committed a theft by using a municipal fleet card to procure motor vehicle spares for his own benefits, the disciplinary action was instituted against the employee and he was found guilty of fraud alternatively theft, the employee was dismissed on the 08 August 2017. The material losses amount to R6,817.20.

Audit fees

Opening balance	-	94 087
Current year subscription / fee	3 740 239	2 232 799
Amount paid - current year	(2 519 253)	(2 326 886)
	1 220 986	**-**

PAYE and UIF

Opening balance	825 721	824 262
Current year subscription / fee	12 011 272	10 176 801
Amount paid - current year	(11 823 737)	(10 175 342)
	1 013 256	**825 721**

Pension and Medical Aid Deductions

Current year subscription / fee	13 473 314	10 102 429
Amount paid - current year	(12 287 729)	(10 102 429)
	1 185 585	**-**

VAT

VAT receivable	2 206 405	1 185 490

34. Municipal office occupation

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

35. Prior period errors

35.1. Remuneration overpayment - Accounting Officer

During the current financial year, Council investigated the irregular expenditure and resolved that overpayment relating to accounting officer be recovered, this expense was previouosly disclosed under the notes to the finanicial statement as irregular expenditure pending the investigation.

The impact is as follow:

Statement of Financial Position (30 June 2016)	
Increase in receivables from exchange transaction	186 584
Statement of Financial Performance (30 June 2016)	
Decrease in remuneration cost	(186 584)
Statement of Financial Position (30 June 2015)	
Increase in receivables from exchange transaction	157 591
Statement of Financial Performance (30 June 2015)	
Decrease in remuneration cost	(157 591)

35.2. Remuneration overpayment - Councillors

During the current financial year, Council investigated the irregular expenditure and resolved that overpayment relating to councillors be recovered, this expense was previouosly disclosed under the notes to the finanicial statement as irregular expenditure pending the investigation.

The effect of this correction is:

Statement of Financial Position (30 June 2016)	
Increase in receivables from exchange transaction	134 709
Statement of Financial Performance (30 June 2016)	
Decrease in remuneration of councillors	(134 709)
Statement of Financial Position (30 June 2015)	
Increase in receivables from exchange transaction	230 211
Statement of Financial Peformance (30 June 2015)	
Decrease in remuneration of councillors	(230 211)

35.3. Property, plant and equipment

During the current financial year, management received an invoice for installation which relates to the Disaster Management System project and escalation cost which related to phase 2 and 3 of the project, both the cost were not taking into account in each phase.

Management also identify in the current year, two assets which were errorneously expensed.

The impact of re-classification is as follows:

35. **Prior period errors (continued)**

Statement of Financial Position (30 June 2016)

Increase in property, plant and equipment (Computer)	69 202
Increase in intangible assets	323 659
Increase in property, plant and equipment (Furniture)	83 340
Increase in trade payables	(392 861)
Increase in accumulated depreciation (PPE)	(18 482)
Increase in accumulated depreciation (Intangible)	(5 391)
Decrease in accumulated surplus	(59 467)
	-

Statement of Financial Position (30 June 2015)

Increase in property, plant and equipment (Computer)	274 981
Increase in property, plant and equipment (Leased assets)	14 675
Increase in trade payables	(274 981)
Increase in accumulated depreciation (PPE)	(98 642)
Increase in accumulated surplus	83 967
	-

35.4. Trade payables

At the end of the prior year, the creditor relating to various traveling claims and consumable expense were overstated / duplicated by an amount of R11,522 and the other creditors amounting to R16,914 were not accounted for in the period 2016.

The effect of this correction is as follow:

Statement of financial position (30 June 2016)

Decrease in payables from exchange transaction	11 522
Increase in payables from exchange transaction	(301 127)

Statement of finanical performance (30 June 2016)

Decrease in general expenditure	11 522
Increase in general expenditure	-301 127

35.5. Property, plant and equipment (over / under statement)

Management conducted assets reconciliation process and identify that the following assets were overstated - accumulated depreciation IT Equipment, Motor vehicle cost and the following assets were understated IT Equipment cost and accumulated depreciation motor vehicle.

The effect of this correction is as follow:

Statement of financial position

Increase in property, plant and equipment (IT Equipment)	2 325
Decrease in property, plant and equipment (Motor vehicle)	(11 170)
Decrease in accumulated depreciation (IT Equipment)	14 154
Decrease in accumulated depreciation (IT Equipment)	11 616
Increase in accumulated surplus	(16 925)
	-

36. **Contracted services**

Contracted Financial Support	556 011	987 816

Notes to the Financial Statements

Figures in Rand

36. Contracted services (continued)

Performance Management System	-	1 079 764
	556 011	**2 067 580**

37. Grants and subsidies paid

Other subsidies

Local government assistance	2 031 579	1 610 414

38. Revenue

Sundry income	180 961	234 006
Interest received - investment	1 147 633	1 172 745
Government grants & subsidies	103 660 952	102 798 196
	104 989 546	**104 204 947**

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

Sundry income	180 961	234 006
Interest received - investment	1 147 633	1 172 745
	1 328 594	**1 406 751**

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

Transfer revenue

Government grants & subsidies	103 660 952	102 798 196

39. Budget differences

Material differences between budget and actual amounts

39.1. Sundry income - the actual revenue over the final budget indicates a decline of 97%, these was due to incorrect treatment of surplus cash errorneously included in the budget and provision for non-cash items.

39.2. Depreciation and amortisation – the actual expenditure over the final budget indicates an increase of 23%, these was as the results of additions bought during the current year, the timing of purchases which was earlier than the planned date this has led to an increase in the depreciation value.

39.3. Finance charges - the actual expenditure over the final budget indicate an increase of 100%, these was as the results of misallocation of finance charges which was allocated under general expenditure in the budget.

39.4. Repairs and maintenance – the actual expenditure over the final budget indicate an increase of 20%, these was due to repairs and maintenance on building and vehicles which was unforseen.

39.5. Contracted services – the actual contracted service expenditure over the final budget indicates a decrease of 27%, these was as a result of less consultants been used.

39.6. Grants and subsidies paid - the acutal expenditure over the final budget indicate an increase of 151%, these was as a results of incorrect classification of rural roads assets mangement expense which was included under the general expenditure as oppose to grants and subsidies in the budget.

39.7. General expenditure - the actual expenditure over the final budget indicate a decrease of 14%, this was due to misallocation as detailed in 39.3 and 39.6

39.8. Receivables from exchange transaction - the actual receivables from exchange transaction over the final budget indicate a decrease of 46%, these was due to an overstatement of receivables account.

39. Budget differences (continued)

39.9. VAT Receivables – the actual VAT receivable over the final budget indicates an decrease of 100% these was due to the fact that VAT refunds for the periods March, May and June 2017, still outstanding from SARS.

39.10. Cash and cash equivalents – the actual cash and cash equivalents over the final budget indicates a decrease of 20%, this was due to incorrect financial projections.

39.11. Intangible assets – the actual intangible assets over the final budget indicates an increase of 85%, this was due to procurement of mSCOA Financial Management System which was not planned.

39.12. Finance lease (current and non-current) - the actual finance lease current and non-current over the final budget indacate a decrease of 47% and 100% respectively, these was due to provision made with anticipation for the procurement of new finance lease contract on printers.

39.13. Payables from exchange transaction - the actual payables from exchange transaction over the final budget indicate an increase of 75% these was due to financial constraint experience during the year.