FEZILE DABI DISTRICT MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2013

General Information

Legal form of entity	Municipality (MFMA)
Nature of business and principal activities	District Municipality
Mayoral committee	
Executive Mayor	Cllr MP Moshodi
Councillors	Cllr SI Mbalo (Speaker) [Resigned 31 May 2013]
	Cllr KGL Nkethu (Speaker)
	Cllr ME Notsi
	Cllr AM Olifant
	Cllr K Khumalo
	Cllr GN Guza
	Cllr ME Magashule
	Cllr ML Hlapane
Grading of local authority	Low Capacity (Grade 1)
Accounting Officer	Dr. MMV Mongake (01/07/2011 to 30/09/2012) ML Molibeli (01/10/2012 to date)
Chief Finance Officer (CFO)	G Mashiyi
Registered office	John Vorster Road Sasolburg 1947
Postal address	P.O Box 10 Sasolburg 1947
Bankers	ABSA BANK
Auditors	The Auditor - General: Free State
Attorneys	Manoko Attorneys Peyper Attorneys Inc

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
EPWP	Expanded Public Works Programme
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IDP	Integrated Development Plan
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
FDDM	Fezile Dabi District Municipality
DWA	Department of Water Affairs
COGTA	Cooperative Governance and Traditional Affairs

Accounting Officer's Responsibilities and Approval

I am responsible for the presentation of these financial statements which are set out on page 5 to 60 in terms of Section 126 (1) of the Municipal Finance Management Act (Act 56 of 2003), and which I have signed on behalf of the Municipality.

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

I certify that the salaries, allowances and benefits of councillors as disclosed in note 18 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The financial statements set out on page 5 to 60, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

ML Molibeli
Municipal Manager
Hons & Masters: Public Governance and Management

Statement of Financial Position as at 30 June 2013

	Note(s)	2013 R	Restated 2012 R
Assets			
Current Assets			
Trade and other receivables	3	7,823,375	293,584
VAT receivable	4	1,956,041	4,058,561
Cash and cash equivalents	5	160,410,675	190,824,792
		170,190,091	**195,176,937**
Non-Current Assets			
Property, plant and equipment	6	32,833,052	25,949,400
Intangible assets	7	358,362	535,559
		33,191,414	**26,484,959**
Total Assets		**203,381,505**	**221,661,896**
Liabilities			
Current Liabilities			
Trade and other payables	8	17,504,160	17,309,626
Unspent conditional grants and receipts	9	7,360,048	35,507,082
Current portion of long term loans	10	5,919,300	5,293,499
		30,783,508	**58,110,207**
Non-Current Liabilities			
Retirement benefit obligation	11	8,417,000	6,440,000
Provision for Long service awards	12	7,190,000	5,677,000
Long term loans	10	14,507,239	20,426,539
Operating lease liability		44,103	209,355
		30,158,342	**32,752,894**
Total Liabilities		**60,941,850**	**90,863,101**
Net Assets		**142,439,655**	**130,798,795**
Net Assets			
Reserves			
Revaluation reserve	13	16,466,211	7,835,140
Accumulated surplus		125,973,444	122,963,655
Total Net Assets		**142,439,655**	**130,798,795**

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2013 R	Restated 2012 R
Revenue			
Administration and management fees received		59,280	46,450
Fees earned		-	272,233
Recoveries		-	13,381
Other income	15	1,410,161	2,212,514
Interest received	16	9,420,228	10,466,965
Government grants & subsidies	14	134,627,219	129,393,000
Total revenue		**145,516,888**	**142,404,543**
Expenditure			
Employee related costs	17	(65,916,417)	(56,907,301)
Remuneration of councillors	18	(5,964,912)	(5,414,800)
Administrative expense	19	(799,788)	(691,835)
Impairment loss on property, plant and equipment		(88,810)	-
Depreciation and amortisation	20	(3,814,940)	(3,852,082)
Bad debts written off	21	-	(724,431)
Finance charges	22	(2,922,635)	(3,488,495)
Provision for doubtful debts		(198,462)	-
Repairs and maintenance		(711,796)	(641,844)
Contracted services	23	(11,540,410)	(15,043,831)
Grants and subsidies paid	24	(13,784,803)	(8,472,580)
General Expenses	25	(36,924,061)	(39,524,229)
Total expenditure		**(142,667,034)**	**(134,761,428)**
Operating surplus		**2,849,854**	**7,643,115**
Loss on disposal of assets		(9,963)	(579,097)
Surplus for the year		**2,839,891**	**7,064,018**

STATEMENT OF CHANGES IN NET ASSETS

	Revaluation reserve	Capital replacement reserve	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R
Opening balance as previously reported	8,181,602	4,019,492	12,201,094	104,495,281	116,696,375
Adjustments					
Prior year error (Note 28)	-	-	-	654,054	654,054
Balance at 01 July 2011 as restated	**8,181,602**	**4,019,492**	**12,201,094**	**105,149,335**	**117,350,429**
Changes in net assets					
Revaluation reserve realised	(346,462)	-	(346,462)	346,462	-
Corrections - Prior Period Error (Note - 28)	-	-	-	6,384,348	6,384,348
Disestablishment of the Capital Replacement Reserve (CRR)	-	(4,019,492)	(4,019,492)	4,019,492	-
Net income (losses) recognised directly in net assets	(346,462)	(4,019,492)	(4,365,954)	10,750,302	6,384,348
Surplus for the year	-	-	-	7,064,018	7,064,018
Total recognised income and expenses for the year	(346,462)	(4,019,492)	(4,365,954)	17,814,320	13,448,366
Total changes	(346,462)	(4,019,492)	(4,365,954)	17,814,320	13,448,366
Opening balance as previously reported	7,835,140	-	7,835,140	117,091,030	124,926,170
Adjustments					
Prior year error (Note 28)	-	-	-	5,872,625	5,872,625
Balance at 01 July 2012 as restated	**7,835,140**	**-**	**7,835,140**	**122,963,655**	**130,798,795**
Changes in net assets					
Revaluation reserve realised	(346,462)	-	(346,462)	346,462	-
Other Corrections	-	-	-	(176,564)	(176,564)
Revaluation Surplus	8,993,723	-	8,993,723	-	8,993,723
Devaluation on land	(16,190)	-	(16,190)	-	(16,190)
Net income (losses) recognised directly in net assets	8,631,071	-	8,631,071	169,898	8,800,969
Surplus for the year	-	-	-	2,839,891	2,839,891
Total recognised income and expenses for the year	8,631,071	-	8,631,071	3,009,789	11,640,860
Total changes	8,631,071	-	8,631,071	3,009,789	11,640,860
Balance at 30 June 2013	**16,466,211**	**-**	**16,466,211**	**125,973,444**	**142,439,655**
Note(s)	13				

CASH FLOW STATEMENT

	Note(s)	2013 R	Restated 2012 R
Cash flows from operating activities			
Receipts			
Grants		134,627,219	129,393,000
Interest income		9,420,228	10,466,965
Other receipts		1,479,127	2,544,578
		145,526,574	142,404,543
Payments			
Employee costs		(67,918,942)	(62,322,101)
Suppliers		(97,997,728)	(84,013,330)
Finance costs		(2,922,635)	(3,488,495)
		(168,839,305)	(149,823,926)
Net cash flows from operating activities	26	**(23,312,731)**	**(7,419,383)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(1,642,635)	(2,610,726)
Proceeds from sale of property, plant and equipment	6	9,963	579,097
Purchase of intangible assets	7	-	(56,848)
Loss from sale of property, plant and equipment		(9,963)	(579,097)
Net cash flows from investing activities		**(1,642,635)**	**(2,667,574)**
Cash flows from financing activities			
Movement in long term loans		(5,293,499)	(4,727,638)
Movement in operating lease liability		(165,252)	(558,983)
Net cash flows from financing activities		**(5,458,751)**	**(5,286,621)**
Net increase/(decrease) in cash and cash equivalents		**(30,414,117)**	**(15,373,578)**
Cash and cash equivalents at the beginning of the year		190,824,792	206,198,370
Cash and cash equivalents at the end of the year	5	**160,410,675**	**190,824,792**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Administration and management fees received	40,000	-	**40,000**	59,280	**19,280**	
Other income	80,000	-	**80,000**	1,410,161	**1,330,161**	Note 15
Interest received - investment	10,503,100	-	**10,503,100**	9,420,228	**(1,082,872)**	Note 16
Total revenue from exchange transactions	**10,623,100**	**-**	**10,623,100**	**10,889,669**	**266,569**	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants & subsidies	134,586,000	10,000,000	**144,586,000**	134,627,219	**(9,958,781)**	Note 14
Total revenue	**145,209,100**	**10,000,000**	**155,209,100**	**145,516,888**	**(9,692,212)**	
Expenditure						
Personnel	(71,836,032)	(629,500)	**(72,465,532)**	(65,916,417)	**6,549,115**	Note 17
Remuneration of councillors	(6,047,800)	(552,000)	**(6,599,800)**	(5,964,912)	**634,888**	Note 18
Administration	(690,000)	(143,000)	**(833,000)**	(799,788)	**33,212**	Note 19
Impairment on property, plant and equipment	25,018,042	16,349,373	**41,367,415**	(88,810)	**(41,456,225)**	
Depreciation and amortisation	(3,495,600)	-	**(3,495,600)**	(3,814,940)	**(319,340)**	Note 20
Finance costs	(8,299,500)	-	**(8,299,500)**	(2,922,635)	**5,376,865**	Note 22
Debt impairment	-	-	**-**	(198,462)	**(198,462)**	
Repairs and maintenance	(1,134,010)	(130,000)	**(1,264,010)**	(711,796)	**552,214**	
Contracted Services	(8,677,800)	(5,510,773)	**(14,188,573)**	(11,540,410)	**2,648,163**	Note 23
Grants and subsidies paid	(16,100,000)	(18,522,000)	**(34,622,000)**	(13,784,803)	**20,837,197**	Note 24
General Expenses	(60,076,700)	(9,950,000)	**(70,026,700)**	(36,924,061)	**33,102,639**	Note 25
Total expenditure	**(151,339,400)**	**(19,087,900)**	**(170,427,300)**	**(142,667,034)**	**27,760,266**	
Operating surplus	**(6,130,300)**	**(9,087,900)**	**(15,218,200)**	**2,849,854**	**18,068,054**	
Loss on disposal of assets and liabilities	-	-	**-**	(9,963)	**(9,963)**	
Surplus before taxation	**(6,130,300)**	**(9,087,900)**	**(15,218,200)**	**2,839,891**	**18,058,091**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(6,130,300)**	**(9,087,900)**	**(15,218,200)**	**2,839,891**	**18,058,091**	

ACCOUNTING POLICIES

1. Basis of Presentation

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

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

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

1.1 Presentation of currency

These annual financial statements are presented in South African Rand.

1.2 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

ACCOUNTING POLICIES

1.3 Property, plant and equipment (continued)

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses except land and buildings which are revalued at least every five years. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Land and buildings are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses in respect of buildings.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

The annual depreciation rates are based on the following estimated asset useful lives:

Item	Average useful life
Land	Indefinite
Buildings	30 years
Furniture and Fittings	3 - 10 years
Motor Vehicles	
• Ambulances	5 - 10 years
• Fire engines	20 years
• Buses	15 years
• Trucks and light delivery vehicles	5 - 7 years
• Ordinary motor vehicles	5 - 7 years
• Motor cycles	3 years
Office Equipment	
• Office machines	3 - 5 years
• Air conditioners	5 - 7 years
Computer Equipment	
• Computer hardware	5 years
• Computer software	3 - 5 years
Plant and machinery	
• Laboratory equipment	5 years
• Telecommunication equipment	5 years

ACCOUNTING POLICIES

1.3 Property, plant and equipment (continued)

Other property, plant and equipment

• Lawn mowers	2 years
• Compressors	5 years
• Radio equipment	5 years
• Firearms	5 years
• Emergency equipment - Fire hoses	5 years
• Fire fighting equipment	15 years
• Emergency lights	5 years

The assets' residual value, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at 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.

ACCOUNTING POLICIES

1.3 Property, plant and equipment (continued)

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

Impairment

The entity assess at each report date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

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

An impairment loss shall be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP (for example, in accordance with the revaluation model in the standard of GRAP on Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

An impairment loss recognised in prior periods for an asset shall be reversed if, and only 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. If this is the case, the carrying amount of the asset shall, except as described in paragraph. 65 of GRAP 21, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods.

A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in accordance with another Standard of GRAP (for example, in accordance with the revaluation model in the standard of GRAP on Property, Plant and Equipment). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that Standard of GRAP.

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

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised. (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

1.4 GRAP 104 Financial instruments

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

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 municipality on terms that are not market related.

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

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

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 municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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.

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

Liquidity risk is the risk encountered by an municipality 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 municipality 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 municipality'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 municipality.

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 municipality 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 municipality 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.

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

Classification

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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Reclassification

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

Where the municipality 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 municipality 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.

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

ACCOUNTING POLICIES

1.4 GRAP 104 Financial instruments (continued)

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 municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

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

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

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality 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 municipality does not offset the transferred asset and the associated liability.

1.5 Revenue Recognition

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

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

Interest revenue is recognised using the effective interest rate method.

Government grants are recognised as revenue when all conditions associated with the grant have been met. Where grants have been received but the municipality has not met the condition, a liability is raised.

Amounts received from government and donors for the purpose of acquiring item of property, plant and equipment are also recognised as revenue.

Measurement

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

ACCOUNTING POLICIES

1.6 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.

This liability always has to be cash-backed. The following provision are set for the creation and utilisation of this creditor:

Unspent conditional grants are recognised as a liability when the grant is received.
When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
The cash which backs up the creditor is invested until it is utilised.
Interest earned on the investment is treated in accordance with the grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's income it is recognised as interest earned in the Statement of Financial Performance.

1.7 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

ACCOUNTING POLICIES

1.7 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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. Note: 44

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

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

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

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

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

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

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

ACCOUNTING POLICIES

1.8 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.

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

1.9 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the municipal system Act (Act No.32 of 2000), the Public Office Bearer Act (Act No.20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as revenue in the Statement of Financial Performance.

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.

1.10 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.

1.11 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

ACCOUNTING POLICIES

1.11 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 Borrowing costs

Borrowing costs are recognised as an expense in the statement of financial performance in the period in which they are incurred.

ACCOUNTING POLICIES

1.13 Employee benefits

Short-term employee benefits

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

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

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

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

Defined benefit plans

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

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

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

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

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

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

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

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

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

Post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

ACCOUNTING POLICIES

1.13 Employee benefits (continued)

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. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.14 Comparative figures

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

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed.

Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparative are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Prior year comparatives:
When the presentation or classification of items in the annual financial statements is amended, prior year comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.15 GRAP 23 Revenue from non-exchange transactions

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

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

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

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

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

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

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

ACCOUNTING POLICIES

1.15 GRAP 23 Revenue from non-exchange transactions (continued)

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.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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.

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.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

ACCOUNTING POLICIES

1.15 GRAP 23 Revenue from non-exchange transactions (continued)

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

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

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

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

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

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

1.16 Significant judgements and sources of estimation uncertainty

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

ACCOUNTING POLICIES

1.16 Significant judgements and sources of estimation uncertainty (continued)

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

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

Fair value estimation

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates and supply demand, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in a note 12

Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effect is material.

Useful lives and residual values

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

ACCOUNTING POLICIES

1.16 Significant judgements and sources of estimation uncertainty (continued)

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 requirements 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 judgement 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.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 11.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

1.17 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

ACCOUNTING POLICIES

1.17 Intangible assets (continued)

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

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

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

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

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

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

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

Item	**Useful life**
Computer software, other	3 - 10 years

Intangible assets are derecognised:

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

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

1.18 Tax

Value Added Tax (VAT)

The entity accounts for VAT on the cash basis. The entity is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The entity accounts for VAT on a monthly basis.

1.19 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.

ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

ACCOUNTING POLICIES

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

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

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.20 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual 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.

1.21 Offsetting

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

1.22 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.23 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.24 GRAP 24 Budget information

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

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

ACCOUNTING POLICIES

1.24 GRAP 24 Budget information (continued)

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

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

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

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

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

1.25 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.

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

1.26 Contractual Commitments

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

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

1.27 Subsequent Events

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

Notes to the Annual Financial Statements

	2013	Restated 2012
	R	R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 25: Employee benefits	01 April 2013	The most significant impact of the standard relates to actuarial gains and losses that may now only be recognised in full in the year that it arises (no more options).
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 107: Mergers	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 20: Related parties	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 12 (as revised 2012): Inventories	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 13 (as revised 2012): Leases	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• IGRAP16: Intangible assets website costs	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	It is unlikely that the standard will have a material impact on the annual financial statements.

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

Notes to the Annual Financial Statements

	2013 R	2012 R

3. Trade and other receivables

	2013 R	2012 R
Provision for doubtful debts: Tshabalala & Dhlamini	(198,462)	-
Suspense	19,671	33,282
Dept of Sports Grant: FDDM Stadium	440,002	-
Fuel deposit	1,000	1,000
Pick n Pay Card	2,251	2,251
S Tshabalala - Vehicle Loan	35,960	35,960
Other debtors	1,085,428	-
Bursary recoupments	5,430	56,089
N Xaba - Vehicle	-	2,500
S Dhlamini - Vehicle Loan	162,502	162,502
Recoverable Funeral Expenses: MEC Health	6,269,593	-
	7,823,375	**293,584**

The MEC's Funeral expenses will be recovered from the following suppliers;

- KV2 Trading 5432
- Clean Heat energy saving solutions (pty) ltd
- Empire Consulting
- Setshabelo Trading (620)
- FX Energy

Trade and other receivables pledged as security

None of the Trade and Other receivables was pledged as security by the municipality during the financial year.

Trade and other receivables impaired

As of 30 June 2013, trade and other receivables of R 198,462 (2012: R 198,462) were impaired and provided for.

The amount of the provision was R 198,462 as of 30 June 2013 (2012: R -).

The ageing of these loans is as follows:

	2013 R	2012 R
Over 6 months	198,462	-

4. VAT receivable

	2013 R	2012 R
VAT	1,956,041	4,058,561

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. The municipality is registered for VAT on a payment basis, and VAT is declared to SARS on a monthly basis.

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

	2013 R	2012 R

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	31,595,916	68,305,534
Short-term deposits	128,814,759	122,519,258
	160,410,675	**190,824,792**

Short term deposits are for periods which are less than 3 months.

Short-term deposits consist of the following balances at various institutions

Absa bank	40,475,074	38,524,139
Nedbank	31,142,958	29,608,219
Rand merchant	11,463,949	10,941,142
Standard bank	45,676,319	43,445,758
	128,758,300	**122,519,258**

The municipality had the following bank accounts

Cheque Account
ABSA BANK - Sasolburg
Account number: 520000100

Cash book balance at the beginning of the year	3,667,675	21,674,920
Cash book balance at the end of the year	3,586,712	3,667,675
Bank statement balance at the beginning of the year	3,838,931	24,718,509
Bank statement balance at the end of the year	3,744,526	3,838,931

Savings Account
ABSA Bank - Sasolburg
Account Number: 9070399717

Cash book balance at the beginning of the year	63,210,824	67,484,814
Cash book balance at the end of the year	25,546,554	63,210,824
Bank statement balance at the beginning of the year	63,210,824	67,484,814
Bank statement balance at the end of the year	25,546,554	63,210,824

HIV/Aids Project Bank Account
ABSA Bank - Sasolburg
Account number: 9209269956

Cash book balance at the beginning of the year	1,427,035	1,189,219
Cash book balance at the end of the year	2,462,650	1,427,035
Bank statement balance at the beginning of the year	1,427,035	1,189,219
Bank statement balance at the end of the year	2,462,650	1,427,035

Notes to the Annual Financial Statements

	2013	2012
	R	R

6. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,590,000	-	2,590,000	2,025,000	-	2,025,000
Buildings	19,729,696	-	19,729,696	14,718,126	(2,722,201)	11,995,925
Plant and machinery	204,945	(47,056)	157,889	204,945	(36,295)	168,650
Furniture and fittings	4,479,787	(3,022,409)	1,457,378	4,006,006	(2,677,394)	1,328,612
Motor vehicles	9,339,821	(4,222,401)	5,117,420	8,760,272	(2,942,268)	5,818,004
Office equipment	1,702,085	(1,139,059)	563,026	1,689,566	(937,426)	752,140
Computer equipment	5,559,034	(3,982,485)	1,576,549	5,321,858	(3,358,446)	1,963,412
Other Assets	2,892,253	(1,251,159)	1,641,094	2,778,213	(880,556)	1,897,657
Total	**46,497,621**	**(13,664,569)**	**32,833,052**	**39,503,986**	**(13,554,586)**	**25,949,400**

Notes to the Annual Financial Statements
Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Devaluation	Revaluation Surplus	Depreciation	Carrying Value
Land	2,025,000	-	-	(105,000)	670,000	-	2,590,000
Buildings	11,995,925	-	-	-	8,323,723	(589,952)	19,729,696
Plant and machinery	168,650	-	-	-	-	(10,761)	157,889
Furniture and fittings	1,328,612	577,205	(8,991)	-	-	(439,448)	1,457,378
Motor vehicles	5,818,004	579,550	-	-	-	(1,280,134)	5,117,420
Office equipment	752,140	35,631	-	-	-	(224,745)	563,026
Computer Equipment	1,963,412	336,210	(972)	-	-	(722,101)	1,576,549
Other Assets	1,897,657	114,039	-	-	-	(370,602)	1,641,094
	25,949,400	**1,642,635**	**(9,963)**	**(105,000)**	**8,993,723**	**(3,637,743)**	**32,833,052**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Correction of Error	Depreciation	Carrying Value
Land	2,025,000	-	-	-	-	2,025,000
Buildings	11,812,858	340,544	-	490,315	(647,792)	11,995,925
Plant and machinery	179,410	-	-	-	(10,760)	168,650
Furniture and fittings	970,667	217,786	(5,400)	579,145	(433,586)	1,328,612
Motor vehicles	6,178,254	1,523,661	(573,697)	153,647	(1,463,861)	5,818,004
Office equipment	340,856	157,277	-	425,681	(171,674)	752,140
Computer Equipment	882,291	270,367	-	1,426,299	(615,545)	1,963,412
Other Assets	2,017,496	101,091	-	129,686	(350,616)	1,897,657
	24,406,832	**2,610,726**	**(579,097)**	**3,204,773**	**(3,693,834)**	**25,949,400**

Notes to the Annual Financial Statements

	2013 R	2012 R

6. Property, plant and equipment (continued)

Pledged as security

No property, plant and equipment was pledged as security for liabilities.

Revaluations

The effective date of the revaluations was 28 June 2013. Revaluations were performed by Kgolofelo Property Services CC an independent valuer.Valuations were made on the basis of recent market transactions on arm length terms. The revaluation surplus was credited to revaluation reserve.

Land and buildings are re-valued independently every 5 years.

The carrying value of the revalued assets under the cost model would have been:

	2013 R	2012 R
Land	178,810	178,810
Buildings	3,013,531	4,865,717

Other information

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)	2013 R	2012 R
Computer Equipment	634,896	4,156,241
Furniture and Fittings	335,808	2,296,970
Buildings	-	750,425
Motor Vehicles	-	45,000
Office Equipment	89,784	1,194,777
Other Assets	49,744	321,234
	1,110,232	**8,764,647**

Key Assumptions used to determine the recoverable service amount of assets during the period:

The municipality conducted a stock-take/asset count, and in this process the assets' conditions were assessed, and it was determined that no assets were identified to be impaired.

No further information is therefore disclosed, as there were no assets impaired during the period under review.

Notes to the Annual Financial Statements

	2013	2012
	R	R

7. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Microsoft Exchange 2010	56,848	(18,949)	37,899	56,848	-	56,848
Caseware	173,950	(91,807)	82,143	173,950	(62,815)	111,135
Microsoft Office 2007	163,027	(129,063)	33,964	163,027	(108,685)	54,342
E-Venus	468,460	(375,744)	92,716	468,460	(317,186)	151,274
Server Software	241,071	(147,056)	94,015	241,071	(107,867)	133,204
Payday System	89,052	(71,427)	17,625	89,052	(60,296)	28,756
Total	**1,192,408**	**(834,046)**	**358,362**	**1,192,408**	**(656,849)**	**535,559**

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Carrying Value
Caseware	111,135	(28,992)	82,143
E-Venus	151,274	(58,558)	92,716
Microsoft Exchange 2010	56,848	(18,949)	37,899
Microsoft Office 2007	54,342	(20,378)	33,964
Payday System	28,756	(11,131)	17,625
Server Software	133,204	(39,189)	94,015
	535,559	**(177,197)**	**358,362**

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Correction of Error	Amortisation	Carrying Value
Caseware	106,303	-	33,824	(28,992)	111,135
E-Venus	-	-	209,831	(58,557)	151,274
Microsoft Exchange 2010	-	56,848	-	-	56,848
Microsoft Office 2007	-	-	74,721	(20,379)	54,342
Payday System	-	-	39,887	(11,131)	28,756
Server Software	108,422	-	63,971	(39,189)	133,204
	214,725	**56,848**	**422,234**	**(158,248)**	**535,559**

Other information

	2013	2012
Fully amortised intangible assets still in use:	4,094	4,094

Fully amortised intangible assets still in use consist of:
- MS Exchange 2003 Server

Notes to the Annual Financial Statements

	2013 R	2012 R

7. Intangible assets (continued)

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

There are no intangible assets whose title is restricted.

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

8. Trade and other payables

Trade payables	9,235,981	4,634,679
Retention Creditors	2,233,805	7,885,708
Staff Leave Accrual	4,454,278	3,467,588
Service Bonus Accrual	1,580,096	1,321,651
	17,504,160	**17,309,626**

9. Unspent conditional grants and receipts

See appendix "F2" for a detailed reconciliation of grants from other spheres of government. The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld during the year.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
RWF Feasibility Study Funding	-	450,000
Department of Health - Relebohile Clinic: Ngwathe Local Municipality	3,042,714	4,335,865
Department of Roads, Transport and Police - Internal Roads: Ngwathe Local Municipality	732,391	732,391
EPWP Project - Sidewalks: Metsimaholo Local Municipality	509,434	117,428
Department of Public Works - Church: Ngwathe Local Municipality	85,794	85,794
Department of Sports - Grant: Fezile Dabi Stadium	-	24,410,077
EPWP - Metsimaholo Hospital	1,253,366	2,278,555
DWAF	137,294	656,147
EPWP - Upgrading and construction of the street network within the Ngwathe Municipal Area	-	540,825
LOTTO Grant	1,599,055	1,900,000
	7,360,048	**35,507,082**

Movement during the year

Balance at the beginning of the year	35,507,082	56,661,118
Additions during the year	11,541,688	20,534,284
Expenditure recognised during the year	(39,688,722)	(41,688,320)
	7,360,048	**35,507,082**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

10. Long term loans

	2013 R	2012 R
Loans from DBSA		
External loans	20,426,539	25,720,038
Less: Current portion transferred to current liabilities	(5,919,300)	(5,293,499)
	14,507,239	**20,426,539**

Notes to the Annual Financial Statements

	2013 R	2012 R

11. Retirement benefit obligation

Defined benefit plan

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

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

Post retirement medical aid plan

	2013 R	2012 R
The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:		
In-service (employee) members	110	107
Continuation members (e.g: Retirees, widows, orphans)	3	3
	113	**110**

The municipality make monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme
- Hosmed Medical Scheme
- Samwumed Medical Scheme
- KeyHealth Medical Scheme
- Discovery Medical Scheme

The amounts recognised in the statement of financial position are as follows:

	2013 R	2012 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(6,440,000)	(5,643,000)
Service Cost	(628,000)	(480,000)
Interest Cost	(617,000)	(541,000)
Actuarial gains or (losses)	(819,000)	127,000
Actual benefits paid	87,000	97,000
Net liability	**(8,417,000)**	**(6,440,000)**

Key assumptions used

Assumptions used at the reporting date:

	2013	2012
Discount rates used	9.30 %	9.20 %
Healthcare cost inflation	8.00 %	7.50 %
Net discount rate	1.20 %	1.58 %

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

The discount rate used in the valuation is determined by reference to market yields on high quality corporate bonds as at the balance sheet date. In countries where there is no deep market in corporate bonds, government bonds are used. It is currently market practice to use government bond yields, as the South African corporate bond market is not considered to be sufficiently developed. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 20 years, the expected duration of the liability based on the current membership data, as at 30 June 2013.

Notes to the Annual Financial Statements

	2013	2012
	R	R

11. Retirement benefit obligation (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Notes to the Annual Financial Statements

	2013 R	2012 R

12. Provision for Long service awards

Reconciliation of provision for long service awards - 2013

	Opening Balance	Contributions	Total
Long Service Awards	5,677,000	1,513,000	7,190,000

Reconciliation of provision for long service awards - 2012

	Opening Balance	Contributions	Total
Long Service Awards	4,707,000	970,000	5,677,000

	2013 R	2012 R
Amounts recognised in the statement of Financial Performance are as follows:		
Current service cost	(1,031,000)	(849,000)
Interest cost	(465,000)	(401,000)
Expected return on plan assets	-	-
Actuarial gains/(losses)	(502,000)	(416,000)
Change in asset ceiling	-	-
Cash movements		
Benefit payments	485,000	696,000
Employer contributions	-	-
Net Expenditure recognised in the statement of Financial Performance	**(1,513,000)**	**(970,000)**

	2013 R	2012 R
Amounts recognised in the statement of Financial Position are as follows:		
Defined benefit obligation	(7,190,000)	(5,677,000)
Plan assets	-	-
Unrecognised actuarial (gains)/losses	-	-
	(7,190,000)	**(5,677,000)**

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

Key assumptions used:

Assumptions used at the reporting date:

	2013	2012
Discount rates used	7.50 %	8.00 %
Salary inflation	8.00 %	7.50 %
Net discount rate	-0.46 %	0.47 %

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

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

Notes to the Annual Financial Statements

13. Revaluation reserve

	2013 R	2012 R
Opening balance	7,835,140	8,181,602
Reserve realised	(346,462)	(346,462)
Revaluation surplus	8,993,723	-
Devaluation on Land (recognised against revaluation reserve)	(16,190)	-
	16,466,211	**7,835,140**

Revaluation surplus relating to property, plant and equipment

	2013 R	2012 R
Revaluation surplus beginning of period	7,835,140	8,181,602
Movements in the reserve for the year	(346,462)	(346,462)
Revaluation surplus	8,977,533	-
	16,466,211	**7,835,140**

Revaluation surplus relating to other

Notes to the Annual Financial Statements

	2013 R	2012 R

14. Government grants and subsidies

	2013 R	2012 R
Equitable share	131,146,000	127,132,000
Financial Management Grant	1,250,000	1,250,000
MSIG	1,000,000	790,000
Skills Levy (SETA)	231,219	-
Extended Public Works Program Incentive (EPWP)	1,000,000	221,000
	134,627,219	**129,393,000**

Equitable Share

	2013 R	2012 R
Balance unspent at beginning of year	-	-
Current-year receipts	131,146,000	127,132,000
Conditions met - transferred to revenue	(131,146,000)	(127,132,000)
	-	-

The Equitable Share is an unconditional grant and is utilised to assist the municipalities to undertake service delivery.

Financial Management Grant

	2013 R	2012 R
Balance unspent at beginning of year	-	-
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,250,000)	(1,250,000)
	-	-

The purpose of the financial management grant is to assist municipalities to implement financial reforms required by MFMA.

MSIG

	2013 R	2012 R
Balance unspent at beginning of year	-	-
Current-year receipts	1,000,000	790,000
Conditions met - transferred to revenue	(1,000,000)	(790,000)
	-	-

The fund is used to assist the district in building capacity to perform its functions and stabilise institutional and governance systems as required by the Municipal Systems (Act 32 of 2000).

Extended Public Works Program Incentive (EPWP)

	2013 R	2012 R
Balance unspent at beginning of year	-	-
Current-year receipts	1,000,000	221,000
Conditions met - transferred to revenue	(1,000,000)	(221,000)
	-	-

The extended Public Works Program Incentive grant was received by the municipality based on its ability to meet the performance requirements as set by the Department of Public Works.

Notes to the Annual Financial Statements

	2013 R	2012 R

14. Government grants and subsidies (continued)

Changes in level of government grants

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

15. Other Income

	2013 R	2012 R
Recoveries - Officials and Councillors	2,720	-
Jazz festival income	828,391	1,646,186
Insurance claim received	70,809	58,361
Donations received	148,425	208,578
Sundry income	359,816	299,389
	1,410,161	**2,212,514**

16. Interest received

	2013 R	2012 R
Interest revenue		
Unlisted financial assets	6,295,502	6,557,630
Bank	3,124,726	3,904,526
Interest charged on trade and other receivables	-	4,809
	9,420,228	**10,466,965**

Notes to the Annual Financial Statements

	2013 R	2012 R

17. Employee related costs

Employee related costs - Salaries and Wages	36,928,489	32,254,799
Performance Bonus	716,797	837,522
Employee related cost - Contributions of UIF, pension and medical aids	8,868,414	7,959,368
Leave pay provision charge	3,356,461	2,122,744
Overtime payments	1,188,358	1,247,457
Long-service awards	1,513,000	970,000
Annual Bonus	2,772,986	2,666,700
Travel, motor car and allowances	8,273,495	7,219,256
Housing benefits and allowances	321,417	832,455
Termination benefits	1,977,000	797,000
	65,916,417	**56,907,301**

Remuneration of Municipal Manager (Dr Mongake)

Annual Remuneration	188,668	751,224
Car Allowance	55,000	220,000
Performance Bonuses	170,666	164,220
Housing	27,000	108,000
Contributions to UIF, Medical and Pension Funds	39,905	149,114
	481,239	**1,392,558**

The Municipal Manager Dr Mongake, only served the municipality up to 30 September 2012.

Remuneration of Municipal Manager (Ms Molibeli)

Annual Remuneration	838,560	-
Car Allowance	318,750	-
Contributions to UIF, Medical and Pension Funds	130,421	-
	1,287,731	**-**

The new Municipal Manager Ms Molibeli assumed her duties with the municipality with effect from 01 October 2012.

Remuneration of Director: Chief Finance Officer

Annual Remuneration	825,952	271,694
Car Allowance	275,317	90,565
Performance Bonuses	-	147,798
Contributions to UIF, Medical and Pension Funds	4,586	6,363
	1,105,855	**516,420**

The CFO's remuneration covers only the 10 months period during the financial year.

Acting

Car allowance acting	44,054	41,057
Acting allowance	191,423	150,366
	235,477	**191,423**

Mr J Reyneke was appointed as the Acting Chief Financial Officer effectively from 1 November 2011 until 31 August 2012.

Notes to the Annual Financial Statements

	2013 R	2012 R

17. Employee related costs (continued)

Remuneration of Director: LED

Annual Remuneration	695,274	692,674
Car Allowance	120,000	120,000
Performance Bonuses	136,533	131,376
Contributions to UIF, Medical and Pension Funds	50,957	172,226
	1,002,764	**1,116,276**

Remuneration of Director: PMU

Annual Remuneration	322,463	770,716
Car Allowance	83,884	201,322
Performance Bonuses	136,533	131,376
Contributions to UIF, Medical and Pension Funds	821	12,372
	543,701	**1,115,786**

Remuneration of Director: Corporate Services

Annual Remuneration	621,219	595,394
Car Allowance	220,995	243,041
Performance Bonuses	136,533	131,376
Contributions to UIF, Medical and Pension Funds	36,243	144,738
	1,014,990	**1,114,549**

Remuneration of Director: Health and Safety

Annual Remuneration	622,416	600,073
Car Allowance	220,995	243,041
Performance Bonuses	136,533	131,376
Contributions to UIF, Medical and Pension Funds	37,944	140,501
	1,017,888	**1,114,991**

Notes to the Annual Financial Statements

	2013 R	2012 R

18. Remuneration of councillors

Executive Mayor	709,249	677,569
Mayoral Committee Members	2,031,953	1,985,438
Speaker	547,565	527,987
Councillors	2,676,145	2,223,806
	5,964,912	**5,414,800**

Executive Mayor - Cllr MP Moshodi

Basic Salary	422,118	402,459
Car Allowances	167,571	158,836
Cellphone Allowance	38,963	37,752
Social Contributions	80,598	78,522
	709,250	**677,569**

Speaker - Cllr SI Mbalo (01/07/2012 - 17/05/2013)

Basic Salary	293,960	316,457
Car Allowances	117,744	127,068
Cellphone Allowance	18,411	18,840
Social Contributions	59,271	65,622
	489,386	**527,987**

Speaker - Cllr KGL Nkethu (01/06/2013 - 30/06/2013)

Basic Salary	27,891	-
Car Allowances	11,171	-
Cellphone Allowance	1,656	-
Social Contributions	5,624	-
	46,342	**-**

MPAC Chair Person: Cllr LS Kubeka (06/10/2012 - 30/06/2013)

Basic Salary	152,488	-
Car Allowances	50,829	-
Cellphone Allowance	5,293	-
Social Contributions	-	-
	208,610	**-**

MMC - TECHNICAL SERVICES: Cllr K Khumalo (01/07/2012 - 30/06/2013)

Basic Salary	186,528	205,143
Car Allowances	77,263	73,235
Cellphone Allowance	7,476	6,924
Social Contributions	45,259	15,434
	316,526	**300,736**

Notes to the Annual Financial Statements

18. Remuneration of councillors (continued)

	2013 R	2012 R
MMC - SOCIAL DEVELOPMENT: Cllr GN Guza (01/07/2012 - 30/06/2013)		
Basic Salary	312,832	295,739
Car Allowances	125,679	119,127
Cellphone Allowance	19,872	18,840
Social Contributions	64,205	62,514
	522,588	**496,220**

	2013 R	2012 R
MMC - EHS & PUBLIC SAFETY: Cllr Ndai (01/07/2011 - 31/10/2011)		
Basic Salary	-	58,673
Car Allowances	-	24,412
Cellphone Allowance	-	2,364
Social Contributions	-	15,060
	-	**100,509**

	2013 R	2012 R
MMC - EHS & PUBLIC SAFETY: Cllr ME Magashule (01/11/2012 - 30/06/2013)		
Basic Salary	231,788	146,469
Car Allowances	77,263	48,823
Cellphone Allowance	7,476	4,560
Social Contributions	-	374
	316,527	**200,226**

	2013 R	2012 R
MMC - LED & TOURISM: Cllr ML Hlapane (01/07/2012 - 30/06/2013)		
Basic Salary	186,528	181,780
Car Allowances	77,263	73,235
Cellphone Allowance	7,476	6,924
Social Contributions	45,259	31,371
	316,526	**293,310**

	2013 R	2012 R
MMC - FINANCE: Cllr ME Notsi (01/07/2012 - 30/06/2013)		
Basic Salary	196,715	186,459
Car Allowances	75,407	71,476
Cellphone Allowance	7,476	6,924
Social Contributions	29,507	28,842
	309,105	**293,701**

	2013 R	2012 R
MMC - CORPORATE SERVICES: Cllr AM Olifant (01/07/2012 - 30/06/2013)		
Basic Salary	186,528	179,289
Car Allowances	77,263	73,235
Cellphone Allowance	7,476	6,924
Social Contributions	45,259	41,288
	316,526	**300,736**

Notes to the Annual Financial Statements

	2013 R	2012 R

18. Remuneration of councillors (continued)

Part Time Councillors
Cllr's: ME Mokoena, ML Pietersen, SJMT Mahlakazela, DP van der Westhuizen, MC Spruit, SH Pittaway, MS Taje, DLS George, KJ Makhoba, D de Hart

	2013 R	2012 R
Basic Salary	1,468,530	1,446,636
Car Allowances	502,715	476,508
Cellphone Allowance	123,960	165,512
Social Contributions	34,698	-
	2,129,903	**2,088,656**

Sitting Allowance for Seconded Councillors of Local Municipalities	172,176	135,150

In-kind benefits

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

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has two full-time bodyguards.

19. Administrative expenditure

Administrative expense	799,788	691,835

20. Depreciation and amortisation

Property, plant and equipment	3,637,743	3,693,834
Intangible assets	177,197	158,248
	3,814,940	**3,852,082**

21. Bad debt written off

Impairments		
Bad debts written-off	-	724,431
Bad debts written-off comprises of the following debtors;		
Office of the Premier	-	45,000
DBSA	-	260,000
Provincial COGTA	-	419,431
	-	**724,431**

22. Finance costs

Interest on long term liabilities	2,922,635	3,488,495

23. Contracted services

Various Contractors	11,540,410	15,043,831

Notes to the Annual Financial Statements

	2013 R	2012 R

23. Contracted services (continued)

These payments are contracts which have been entered into during the current and prior financial year.

Jazz Festival	5,470,017	4,892,106
IDP Implementation Monitoring	1,128,263	646,229
Municipal systems improvement programme	1,000,000	750,000
Cleaning Services	237,305	457,583
Performance Management systems	-	492,296
Renovations - Mafube Fire Station	1,537,985	3,724,345
Security Services - Building	131,332	513,314
Sport Development Programs	819,322	781,996
Upgrading of Municipal Resorts	8,550	508,921
Establishment of District Centre	860,921	1,250,926
Other	346,915	1,026,115
	11,540,610	**15,043,831**

24. Grants and subsidies paid

Other subsidies		
Mafube Local Municipality	(26,818)	3,199,209
Metsimaholo Municipality	1,474,920	793,494
Ngwathe Local Municipality	2,109,499	3,793,010
Moqhaka Local Municipality	9,152,251	6,123
District Rural Areas	1,074,951	680,744
	13,784,803	**8,472,580**

The Municipality identifies projects which are funded through grants and subsidies in the various local municipalities within the District. Projects are identified through the Integrated Development Plan. The operation and control of items of property, plant and equipment funded through these grants and subsidies vests in the local municipalities.

Notes to the Annual Financial Statements

25. General expenses

	2013 R	2012 R
Accounting fees	-	78,947
Advertising	231,576	231,772
Auditors remuneration	2,085,047	1,796,318
Bank charges	74,232	77,542
Cleaning	235,638	82,778
Consulting and professional fees	105,450	1,358,112
Consumables	423,937	295,038
Donations	769,919	782,081
Entertainment	679,493	1,032,150
Rental Equipment	2,693,442	3,479,263
Insurance	250,496	225,600
Community development and training	2,321,608	3,170,778
Conferences and seminars	376,884	-
IT expenses	1,059,741	1,183,388
Fleet	72,609	65,295
Marketing	1,371,410	1,665,123
Magazines, books and periodicals	36,407	76,162
Medical Expenses	-	7,800
Assistance to Local Municipalities	1,198,100	3,351,288
Fuel and oil	690,369	852,977
Postage and courier	21,917	10,206
Printing and stationery	561,237	420,771
Promotions	2,636,021	4,235,351
Protective clothing	227,040	195,987
Research and development costs	144,318	167,564
Royalties and license fees	9,463	8,138
Security (Guarding of municipal property)	21,400	92,966
Staff welfare	-	720,207
Subscriptions and membership fees	592,125	479,743
Telephone and fax	785,676	756,509
Training	1,090,992	877,191
Travel - local	3,510,977	3,103,910
Tourism development	758,357	219,268
Bursaries: External Students	902,075	953,645
Rental property	-	183,231
Other expenses	10,986,105	7,287,130
	36,924,061	**39,524,229**

Donations
All donations made by the municipality are in terms of the council's donation policy.

Notes to the Annual Financial Statements

	2013 R	2012 R
26. Cash used in operations		
Surplus	2,839,891	7,064,018
Adjustments for:		
Depreciation and amortisation	3,814,940	3,852,082
Loss on sale of assets	9,963	579,097
Impairment deficit	-	724,431
Debt impairment	198,462	-
Movements in retirement benefits	1,977,000	797,000
Movements in provisions	1,513,000	970,000
Other non-cash items	(87,754)	2,757,336
Changes in working capital:		
Trade and other receivables	(7,529,791)	72,839
Consumer debtors	(198,462)	-
Trade and other payables	194,534	(2,166,635)
VAT	2,102,520	(915,515)
Unspent conditional grants and receipts	(28,147,034)	(21,154,036)
	(23,312,731)	**(7,419,383)**

27. Retirement Benefit Information

Councilors and employees belong to two defined benefit retirement funds which are the Free State Municipal Pension Fund and the Councilors Pension Fund governed by the Pension Fund Act of 1956. These Funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed June 2005. The Free State Municipal Pension Fund, net assets that are available for benefits at 30 June 2005 was R 1 530 775 000.

The actuarial valuation determined that the fund was in a sound financial position. The estimated liability of the funds is R1 308 118 000 which is adequately financed.

No new information was available at balance sheet date.

Notes to the Annual Financial Statements

	2013	2012
	R	R

28. Prior period errors

The following errors occurred, in relation to the prior financial year, which necessitated corrective action in the current year. The errors were corrected retrospectively in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors:

Intangible Assets:
During the 2012-13 financial year, the entity revised the useful lives of its movable assets, which resulted in a prior period error. Refer to table below for the effects of the prior period error.

Property, plant and equipment:
The entity revised the useful lives of its assets during the financial year. The revision resulted in period period error which was corrected retrospectively. Refer to table below for the effects of the prior period error.

Value Added Tax:
During the 2012-13 financial year, South African Revenue Services disallowed VAT Input which was previously claimed by the municipality. The respective amount was paid to SARS during the 2012-13 financial year.

General Expenses;
The South African Revenue Services disallowed VAT input on certain entertainment expenses, which resulted in an increase in general expenses in the prior period.

Trade Payables:
Creditor control account;
During the 2012-13 financial year, it came to the Auditor General's attention during the audit that there were a number of goods received notes which were accrued for on the creditors system. These GRN's related to the previous financial years. These GRN's were subsequently corrected by the municipality. The effects of the correction are as indicated below.

Retentions on Projects;
During the 2012-13 financial year, the municipality reversed retentions on completed projects which were previously paid out, while the respective accounts were not duly updated.

Disclosure note;

Commitments:
The commitments for the 2012-13 financial year were restated accordingly.

The correction was made in the previous year against Accumulated Surplus.

The effect on the financial statements is as follows:

Notes to the Annual Financial Statements

	2013 R	2012 R

28. Prior period errors (continued)

Opening accumulated surplus or deficit (01 July 2011)		
Decrease in Trade payables	-	713,341
Increase in VAT payable	-	(59,287)
Accumulated Surplus or Deficit	-	(654,054)
	-	-

Statement of financial position		
Increase in VAT payable	-	(165,540)
Decrease in Trade payables	-	2,628,887
Property, plant and equipment	-	3,010,776
Intangible Assets	-	398,502
Accumulated Surplus or Deficit	-	(6,177,032)
	-	**(304,407)**

Statement of financial performance		
Amortisation	-	23,730
Depreciation	-	193,997
General expenses	-	86,680
	-	**304,407**

Contractual Commitments		
Already contracted for but not provided for		
Property, plant and equipment	-	15,443,746

29. Going concern

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

30. Unauthorised expenditure

Balance at the beginning of the year	272,771	-
Unauthorised expenditure - current year	-	272,771
Less: Amounts approved/written-off by council	(272,771)	-
	-	**272,771**

31. Fruitless and wasteful expenditure

Opening balance	5,290	-
Fruitless and wasteful expenditure - current year	12,140	5,290
Less: Amounts approved/written-off by council	(5,290)	-
Transfer to receivables for recovery	(9,686)	-
	2,454	**5,290**

Notes to the Annual Financial Statements

	2013 R	2012 R

32. Irregular expenditure

	2013 R	2012 R
Opening balance	482,789	46,300
Add: Irregular Expenditure - current year	1,093,619	4,253,383
Less: Amounts approved/written-off by council	(1,264,641)	(3,816,894)
	311,767	**482,789**

Analysis of expenditure awaiting condonation per age classification

	2013 R	2012 R
Current year	1,093,619	436,489
Prior years	482,789	46,300
	1,576,408	**482,789**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
SCM procedures not followed: Order class-Urgent	None	26,761
SCM procedures not followed: Order class-Sole Supplier	None	14,575
SCM procedures not followed: Order class-Specialised Services	None	117,750
SCM procedures not followed: Order class-Other	None	323,703
		482,789

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Supply Chain Policy procedures not followed.	Municipality Council	46,300

33. In-kind donations and assistance

No in-kind donations or assistance were received during the year.

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2013 R	2012 R
Current year subscription	569,697	454,986
Amount paid - current year	(569,697)	(454,986)
	-	-

Audit fees

	2013 R	2012 R
Current year fee	2,085,047	1,796,318
Amount paid - current year	(2,085,047)	(1,796,318)
	-	-

PAYE and UIF

	2013 R	2012 R
Current year payroll deduction	13,252,006	11,638,051
Amount paid - current year	(13,252,006)	(11,638,051)
	-	-

Notes to the Annual Financial Statements

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

Pension and Medical Aid Deductions

	2013 R	2012 R
Current year payroll deduction	13,697,409	9,925,513
Amount paid - current year	(13,697,409)	(9,925,513)
	-	-

35. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus budgeted expenditure.

36. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E(2) for the comparison of actual capital expenditure versus budgeted expenditure.

37. Related parties

The were no related party transactions identified during the financial year under review.

38. Risk Management

Financial risk management

The District 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.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

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

The financial liabilities of the District Municipality are backed by appropriate assets and it has adequate liquid resources. The District Municipality monitors the cash projections by ensuring that borrowing facilities are available to meet its cash requirements.

No significant financial risk pertaining to the creditors exists except for mainly operational risks that are not covered in here.

Interest rate risk

The District Municipality is mainly exposed to interest rate risk due to the movements in long-term and short term interest rates.

The risk is managed on an on-going basis.

Notes to the Annual Financial Statements

	2013 R	2012 R

38. Risk Management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial asset will fail to discharge an obligation and cause the District Municipality to incur financial loss.

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.

Foreign exchange risk

The District Municipality does not engage in foreign currency transactions.

39. Events after the reporting date

No events took place after the reporting date, except the stated below:

Subsequent adjusting events:
As on 30 May 2013, Council took a Resolution to dispose-off furniture and computers to CDWs and NGOs, that vehicles identified be disposed by auction, which will allow for employees and councillors to be part of. Furthermore, that the stolen Quantum be written off.

These events were taken into account during the preparation of the 2012-13 Annual Financial Statements.

40. Deviation from supply chain management regulations

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

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

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

Deviation Categories		
Emergency	638,264	-
Sole Supplier	935,543	-
Others	3,091,377	-
	4,665,184	**-**

Notes to the Annual Financial Statements

	2013	2012
	R	R

41. Financial instruments disclosure

Categories of financial instruments

2013

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables	-	7,823,375	7,823,375
VAT Receivable	-	1,956,041	1,956,041
Cash and cash equivalents	128,814,759	31,595,916	160,410,675
	128,814,759	**41,375,332**	**170,190,091**

Financial liabilities

	At amortised cost	Total
Annuity loans	20,426,539	20,426,539
Trade and other payables	17,504,160	17,504,160
Operating lease liability	44,103	44,103
	37,974,802	**37,974,802**

2012

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables	-	293,584	293,584
VAT Receivable	-	4,058,561	4,058,561
Cash and cash equivalents	122,519,258	68,305,534	190,824,792
	122,519,258	**72,657,679**	**195,176,937**

Financial liabilities

	At amortised cost	Total
Annuity loans	25,720,038	25,720,038
Trade and other payables	17,309,626	17,309,626
Operating lease liability	209,355	209,355
	43,239,019	**43,239,019**

Notes to the Annual Financial Statements

	2013 R	2012 R

42. Operating lease

The municipality rents photocopy machines from Nashua Vaal, being the major supplier:

- no contingent rent is payable in terms of the lease agreements.
- there is no renewal as per lease agreement terms, and the lease escalates as determined in the various lease agreements with the renter; and
- no restrictions are imposed by lease arrangements, with regards to additional debt and further leasing.

The lease agreements is for a total period of 36 months (3 years).

43. Commitments

Authorised capital expenditure

	2013 R	2012 R
Already contracted for but not provided for		
• Property, plant and equipment	15,764,800	15,443,746

Operating leases - as lessee (expense)

	2013 R	2012 R
Minimum lease payments due		
- within one year	1,262,500	1,289,819
- in second to fifth year inclusive	2,366,430	-
	3,628,930	**1,289,819**

44. Contingencies

The municipality had the following contingent liabilities as at year-end:

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

	2013 R	2012 R
Maseko Tilana - Civil not finalised Ref (MMW/1/M/5M0728/11)	-	16,630
FDDM/SAMWU obo Setseli - Labour case	80,000	-
FDDM/SAMWU obo Gorati - Labour case	45,000	-
	125,000	**16,630**

- Setseli: Dismissal due to misconduct in refusing to take lawful orders.
- Gorati: Dismissal due to misconduct, the applicant is contesting the dismissal.

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

Notes to the Annual Financial Statements

	2013	2012
	R	R

45. Change in estimate

Property, plant and equipment

The useful lives and residual values of assets were revised during the year under review. Management have revised original estimate, which has resulted in an increase in depreciation expense for the period. The change was done in accordance with GRAP 3.

The revision of the residual values resulted in the following effects;
- Buldings R1 326 966 (Residual value).
- Motor Vehicles R807 143 (Residual value).

The old depreciation expense was R3 499 837 and the new depreciation expense will be R3 637 743.
The future impact of the change in estimates will amount to future depreciation expense of R137 907 per annum.

Intangible Assets

The useful lives of intangible assets which were fully depreciated was revised during the year under review. Management have revised original estimate, which has resulted in an increase in amortisation expense.

The old amortisation expense was R 134 516 and the new amortisation expense will be R 177 198.
The future impact of the change in estimates will amount to future amortisation expense of R23 733 per annum.