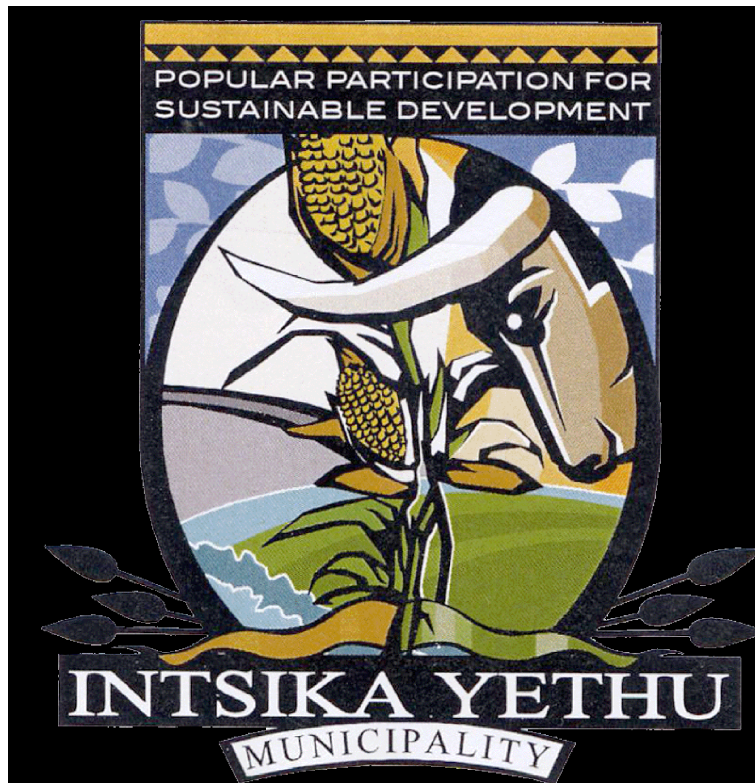


Planning by	Reviewed	Performed by	Final review



Intsika Yethu Municipality
Financial statements
for the year ended 30 June 2014

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

General Information

Legal form of entity

The municipality functions as a local municipality, established under Paragraph 151 of the constitution of the Republic of South Africa.

Nature of business and principal activities

Intsika Yethu Municipality is a South African Category C Municipality (Local municipality) as defined by the Municipal Structures Act (No.117 of 1998).

The municipality's operations are governed by the:

- Municipal Finance Management Act;
- Municipal Systems Act of 2000; and
- Various other Acts and regulations.

Mayoral committee

Executive Mayor

K Vimbayo - Chairperson of executive committee

Councillors

WN Mdwayingana - Portfolio head local economic development
S Myataza - Chief Whip
A Mbotoloshi - (Resigned 08/01/2014)
NE Stata - (Deceased 15/11/2013)
J Cengani - Speaker/chairperson of council (Appointed 21/02/2014)
M Toni - Portfolio head special programs unit (Appointed 28/01/2014)
KF Mdeleleni - Portfolio head water services provision
K Ntsaluba - Portfolio head corporate services
AT Nkota - Portfolio head community services
HS Nobongoza - Portfolio head budget and treasury
M Shasha - Chairperson of MPAC
N Sindile
NG Baleka
MM Mbebe
ML Papiyana
Z Qayiya
D Kapsile
MH Hewu
P Ngandela
M Mahali
NS Mafanya
FN Dangazele
M Yamile
VG Matomela
W Sobekwa
N Magaga
S Tame
N Ntloko
ZS Matshikiza
N Bani
N Jada
MH Mgodeli
NA Somdyala
M Zulu
NP Gadeni
MA Mbotshane
MI Bikitsha
Z Mxi

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

General Information

	S Mkhunyana M Gulubela NA Rotyi N Mto NV Hexana
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	Mr M Dyushu (Resigned 31/10/2013) Mr X Ntikinca (Appointed 01/02/2014)
Accounting Officer	Mr Zamuxolo Shasha
Business address	Building No. 201 Main Street Cofimvaba 5380
Postal address	Private Bag X 1251 Cofimvaba 5380
Telephone number	(047) 874 8700
Fax number	(047) 874 0010
Bankers	First National Bank ABSA Bank
Auditors	Auditor General South Africa

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Index

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AGSA	Auditor General South Africa
SARS	South African Revenue Service
CHDM	Chris Hani District Municipality

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditor is engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by:

Mr Zamuxolo Shasha
Accounting Officer

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Notes	2014	Restated 2013 Restated*
Assets			
Current Assets			
Inventories	6	52 199 652	53 158 992
Receivables from exchange transactions	7	5 134 532	3 057 350
Receivables from non-exchange transactions	8	1 756 427	236 528
VAT receivable	9	4 363 392	268 905
Other receivables		241 391	940 611
Cash and cash equivalents	10	16 013 529	8 009 220
		79 708 923	65 671 606
Non-Current Assets			
Investment property	3	71 870 049	72 794 923
Property, plant and equipment	4	438 487 961	422 457 491
Intangible assets	5	358 564	478 626
		510 716 574	495 731 040
Total Assets		590 425 497	561 402 646
Liabilities			
Current Liabilities			
Payables from exchange transactions	15	40 043 338	14 563 681
Unspent conditional grants and receipts	12	-	9 463 726
Provisions	13	3 222 227	2 649 195
Other financial liabilities	14	512 186	363 388
		43 777 751	27 039 990
Non-Current Liabilities			
Other financial liabilities	14	7 971 830	8 377 363
Total Liabilities		51 749 581	35 417 353
Net Assets		538 675 916	525 985 293
Accumulated surplus		538 675 916	525 985 293

* See Note 33

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Notes	2014	Restated 2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	518 224	488 171
Rental of facilities and equipment		1 161 793	1 170 747
Interest received		1 798 900	840 130
Licences and permits		1 843 170	1 637 902
Other revenue	21	735 417	928 534
Total revenue from exchange transactions		6 057 504	5 065 484
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	3 181 193	3 162 661
Transfer revenue			
Government grants and subsidies	20	173 300 297	144 800 690
Fines		407 506	397 911
Total revenue from non-exchange transactions		176 888 996	148 361 262
Total revenue	17	182 946 500	153 426 746
Expenditure			
Personnel costs	23	(73 443 912)	(61 624 105)
Remuneration of councillors	24	(12 729 295)	(11 539 396)
Depreciation and amortisation	26	(32 856 520)	(32 907 027)
Finance costs	27	(541 305)	(496 894)
Debt impairment	25	(1 502 386)	(3 675 825)
Repairs and maintenance		(2 302 324)	(926 077)
General expenses	22	(49 625 249)	(39 588 782)
Total expenditure		(173 000 991)	(150 758 106)
Operating surplus		9 945 509	2 668 640
(Loss) gain on disposal of assets and liabilities		(483 199)	384 965
Surplus for the year		9 462 310	3 053 605
Discontinued operations	11	3 228 313	1 388 945
Surplus for the year		12 690 623	4 442 550

* See Note 33

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	446 611 328	446 611 328
Prior year adjustments	74 931 415	74 931 415
Balance at 01 July 2012 as restated*	521 542 743	521 542 743
Surplus for the year	4 442 550	4 442 550
Total changes	4 442 550	4 442 550
Balance at 01 July 2013 as restated	525 985 293	525 985 293
Surplus for the year	12 690 623	12 690 623
Total changes	12 690 623	12 690 623
Balance at 30 June 2014	538 675 916	538 675 916

* See Note 33

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Notes	2014	Restated 2013 Restated*
Cash flows from operating activities			
Receipts			
Grants		163 836 571	152 877 435
Interest income		1 798 900	840 130
Other receipts		2 487 501	8 381 325
Discontinued operations		26 627 374	24 883 331
		<u>194 750 346</u>	<u>186 982 221</u>
Payments			
Employee costs		(84 009 317)	(69 602 813)
Finance costs		(541 305)	(496 894)
Other payments		(26 869 129)	(38 425 032)
Discontinued operations		(26 744 300)	(25 590 211)
		<u>(138 164 051)</u>	<u>(134 114 950)</u>
Net cash flows from operating activities	29	<u>56 586 295</u>	<u>52 867 271</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(48 286 151)	(52 151 663)
Proceeds from sale of property, plant and equipment	4	-	444 041
Purchase of other intangible assets	5	(39 100)	(208 868)
		<u>(48 325 251)</u>	<u>(51 916 490)</u>
Net cash flows from investing activities		<u>(48 325 251)</u>	<u>(51 916 490)</u>
Cash flows from financing activities			
Movement in other financial liabilities		(256 735)	(389 724)
		<u>(256 735)</u>	<u>(389 724)</u>
Net increase in cash and cash equivalents		8 004 309	561 057
Cash and cash equivalents at the beginning of the year		8 009 220	7 448 163
Cash and cash equivalents at the end of the year	10	<u>16 013 529</u>	<u>8 009 220</u>

* See Note 33

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	3 600 000	(172 561)	3 427 439	518 224	(2 909 215)	N1
Rental of facilities and equipment	710 000	-	710 000	1 161 793	451 793	N2
Interest received (trading)	450 000	-	450 000	1 798 900	1 348 900	N3
Licences and permits	1 134 700	200 000	1 334 700	1 843 170	508 470	N4
Other income	393 000	-	393 000	735 417	342 417	N5
Total revenue from exchange transactions	6 287 700	27 439	6 315 139	6 057 504	(257 635)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 850 000	-	4 850 000	3 181 193	(1 668 807)	N6
Government grants & subsidies	189 262 000	14 607 691	203 869 691	173 300 297	(30 569 394)	N7
Transfer revenue						
Fines	1 500 000	(500 000)	1 000 000	407 506	(592 494)	N9
Total revenue from non-exchange transactions	195 612 000	14 107 691	209 719 691	176 888 996	(32 830 695)	
Total revenue	201 899 700	14 135 130	216 034 830	182 946 500	(33 088 330)	
Expenditure						
Personnel	(73 666 708)	(697 600)	(74 364 308)	(73 443 912)	920 396	N9
Remuneration of councillors	(13 326 442)	(909 152)	(14 235 594)	(12 729 295)	1 506 299	N10
Depreciation and amortisation	(33 200 000)	-	(33 200 000)	(32 856 477)	343 523	N9
Finance costs	-	-	-	(541 304)	(541 304)	N11
Debt impairment	(1 500 000)	-	(1 500 000)	(1 502 386)	(2 386)	N9
Repairs and maintenance	(6 752 267)	300 000	(6 452 267)	(2 302 368)	4 149 899	N12
General Expenses	(58 598 283)	(11 009 404)	(69 607 687)	(49 625 248)	19 982 439	N13
Total expenditure	(187 043 700)	(12 316 156)	(199 359 856)	(173 000 990)	26 358 866	
Operating surplus	14 856 000	1 818 974	16 674 974	9 945 510	(6 729 464)	
Gains on disposal of assets and liabilities	20 000	-	20 000	(483 199)	(503 199)	N14
Surplus before taxation	14 876 000	1 818 974	16 694 974	9 462 311	(7 232 663)	
Surplus for the year from continuing operations	14 876 000	1 818 974	16 694 974	9 462 311	(7 232 663)	
Discontinued operations (Filtered)	-	-	-	3 228 313	3 228 313	N15
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	14 876 000	1 818 974	16 694 974	12 690 624	(4 004 350)	

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Capital Income - DBSA Loan	14 000 000	-	14 000 000	-	14 000 000	N16
Capital expenditure	(60 396 900)	(3 120 000)	(63 516 900)	(58 005 441)	(5 511 459)	N17
	(46 396 900)	(3 120 000)	(49 516 900)	(58 005 441)	8 488 541	

N1 - Decrease due to water and sanitation charges being changed to discontinued operations.

N2 - During the current year the municipality identified properties that were being incorrectly charged rates instead of rental as the properties were owned by the municipality. An adjustment was processed to reallocate these amounts. This has therefore increased rental income.

N3 - In prior year the municipality reversed some of the interest raised on the debtors system in an effort to assist its community and to enable them to recover greater portions of their debt. The budget took this adjustment into account, however this reversal was not done during the current year.

N4 - The municipality budget was based on the 2013 financial year. During the current year, the municipality began a learner's licence department which resulted in the increase in revenue from licence and permits.

N5 - The municipality raised additional income during the year. Furthermore, there were bad debts recovered which were not budgeted for.

N6 - In the past, the municipality was billing rates on properties that belonged to the municipality, which is not correct. This was reversed during the current year, which resulted in a reduction of rates revenue. However, the budget was not amended accordingly.

N7 - The budget amounts included the grants for water services, which had to be reallocated to discontinued operations.

N8 - Management acknowledges that the budgeting process was not reliable. The expected increase in fine collections did not materialise.

N9 - Variance of 1% which is deemed to be not material.

N10 - The municipality based its budget on prior year results. During the current year they implemented control reforms to ensure that the information is captured more accurately onto the system.

N11 - The interest relates to interest on DBSA loan. The interest was budgeted for as part of a loan repayment of R1 million which is included under capital expenditure.

N12 - The decrease in repairs and maintenance was as result of reallocation of water services repairs to discontinued operations as well as management implementing more capital projects during the year. Such expenditure is included in projects accounts as opposed to repair and maintenance.

N13 - The understand in the expenditure budget was as a results of the expenditure for water services being reallocated to discontinued operations. The municipality had not budgeted for this expenditure under their normal expenditure.

N14 - Properties were transferred to their owners during the year, which resulted in additional gains on disposal.

N15 - It was determined in May 2014 that the water services function would be transferred to CHDM as from 1 July 2014, however the budget had not taken this into account.

N16 - The municipality had intentions to raise additional funding through the DBSA loan. However, this did not materialise during the year.

N17 - The understanding on capital expenditure was a result of additional funding from the DBSA loan not being received.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised 2010)
- GRAP 13 - Leases (as revised 2010)
- GRAP 14 - Events after reporting date (as revised 2010)
- GRAP 16 - Investment property (as revised 2010)
- GRAP 17 - Property, Plant and Equipment (as revised 2010)
- GRAP 19 - Provision, Contingent Liability, Contingent Asset (as revised 2010)
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Non-cash Generating Assets
- GRAP 31 - Intangible Assets (replaces GRAP 102)
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Operations (as revised in 2010)
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards issued, future effective dates can base accounting policies on, or early adopt:

- GRAP 18 - Segmental reporting
- GRAP 20 - Related party disclosure
- Improvements to standards of GRAP

Interpretations:

- IGRAP 1 - Applying the probability test in initial recognition of exchange revenue
- IGRAP 2 - Change in existing decommissioning, restoration and similar liabilities
- IGRAP 3 - Determining whether an arrangement contains a lease
- IGRAP 4 - Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
- IGRAP 8 - Agreement for the construction of assets from exchange transactions
- IGRAP 10 - Assets received from customers
- IGRAP 13 - Operating leases - incentive
- IGRAP 14 - Evaluating the substance of transactions involving the legal form of a lease
- IGRAP 16 - Intangible assets - Website costs (effective 1 April 2013)

1.1 Presentation currency

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

1.2 Going concern assumption

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

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

Trade and other receivables

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

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

Fair value estimation

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

Impairment testing

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

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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Effective interest rate

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

1.4 Investment property

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

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

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

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

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

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.4 Investment property (continued)

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up. When significant components of items of property, plant and equipment have different useful lives, they are accounted for as separate items 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. All other costs are recognised in the income statement as an expense as incurred.

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.5 Property, plant and equipment (continued)

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

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

Item	Average useful life
Landfill sites	70 years
Buildings	
• Mobile offices	10 years
• Other	30 - 50 years
Computer equipment	5 - 7 years
Plant and machinery	7 - 10 years
Furniture and office equipment	
• Paintings	15 years
• Other	7 - 10 years
Motor vehicles	10 years
Infrastructure assets	
• Roads and paving	3 - 50 years
Community assets	
• Halls	25 - 50 years
• Libraries	25 - 30 years
Parks and recreation	25 - 30 years
Wastewater network	25 - 30 years
Electricity	25 - 30 years
Land	Indefinite

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

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

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

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

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

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

When the use of property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised in surplus or deficit to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised in the statement of changes in net assets. Any loss is recognised in the revaluation reserve directly in statement of changes in net asset to the extent that an amount is included in statement of changes in net asset relating to the specific property, with any remaining loss recognised immediately in surplus or deficit.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.5 Property, plant and equipment (continued)

Incomplete construction work

Incomplete construction work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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Accounting Policies

1.7 Intangible assets (continued)

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.

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 years

Intangible assets are derecognised:

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

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

1.8 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

- cash;
- a residual interest of another entity; or

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The 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. 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. 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.

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Accounting Policies

1.8 Financial instruments (continued)

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

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

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.

Financial liabilities

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

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

Presentation

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

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.

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

1.9 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.

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Accounting Policies

1.9 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 if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

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.

Income for leases is disclosed under revenue in the 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.

1.10 Inventories

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

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

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

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

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

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

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

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

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1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Intsika Yethu Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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.

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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Accounting Policies

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

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.

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 oversized or overcapacity asset. Oversized 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.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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.

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.

1.13 Employee benefits

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

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

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

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

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 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.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.14 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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

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

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Finance income

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

Tariff charges, licences and permits

Revenue arising from the application of approved tariffs is recognised when the service is rendered by applying the relevant authorised tariff. This includes licences and permits.

Rentals

Revenue from rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one year a straight-line basis is used.

1.16 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.

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.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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

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

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

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

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.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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.

Government grants

Income received from conditional grants, donations and funding recognised as revenue in the statement of financial performance to the extent that the municipality has complied with all the criterias or conditions attached to the funding. Where the conditions or criterias are not fully met, a liability is recognised in the statement of financial position.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related conditions to be fulfilled are recognised in the statement of financial performance in the year in which they have been received.

Interest earned from investment of grant money is treated in accordance with the grant conditions. If it is payable to the funder it is recognised as a liability in the statement of financial position. If the interest is not payable to the funder it will be recognised as interest income or other income in the statement of financial performance of the period to which it was earned.

Government grants are recognised as revenue when:

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

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive any goods or services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 Discontinued operations

Discontinued operations is a component with separate operations and cash flows that can be clearly distinguishable, operationally and for financial reporting purposes, that has been disposed of and represents a distinguishable activity, group of activities or geographical area of operations, or is a controlled entity acquired exclusively with the view to resale.

Discontinued operations are shown separately from continued operations on the face of the statement of financial performance. Comparative figures are also reflected accordingly.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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.

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

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

1.24 Events after reporting period

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.25 Offsetting

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

1.26 Commitments

Items are classified as commitments when the Municipality has committed itself to future transactions that will normally result in an outflow of resources, embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial reporting period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitment note to the financial statements. Additional text

1.27 Budget information

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

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

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

The approved budget covers the fiscal period from 2013-07-01 to 2014-06-30.

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.27 Budget information (continued)

Comparative information is not required.

1.28 Related parties

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

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

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

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

1.29 Value Added Tax (VAT)

Revenue, expenses and assets are recognised net of VAT. The net amount of VAT recoverable from, or payable to SARS is included as part of receivables or payables in the statement of financial position.

Municipality accounts for VAT on a payments basis.

1.30 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting polices, changes in accounting estimates and errors, requirements except to the extent that it is impracticable to determine the period- specific effects or the accumulated effect of the change in policy. In such cases the municipality shall restate the opening balances of the assets and liabilities and net assets for the earliest period for which a retrospective restatement is practicable. Details of the change in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of change in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of the assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior errors are disclosed in the notes to the financial statements where applicable.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

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:

GRAP 25: Employee benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP 25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

2. New standards and interpretations (continued)

- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 financial statements.

The impact of the standard is not material.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 financial statements.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 7 (as revised 2012): Investments in Associates

Paragraph .17 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

Intsika Yethu Municipality

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Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously: Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously: Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Recognition and measurement and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annual reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:

- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

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

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 18: Segment Reporting

Notes to the Financial Statements

2. New standards and interpretations (continued)

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

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

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

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

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

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

GRAP 20: Related parties

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

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

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

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

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

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

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

The standard elaborates on the definitions and identification of:

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

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

IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

- (a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and
- (b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

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

GRAP32: Service Concession Arrangements: Grantor

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

GRAP108: Statutory Receivables

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

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

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

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

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

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

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

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

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

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3. Investment property

	2014			2013 restated		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	74 441 177	(2 571 128)	71 870 049	74 880 830	(2 085 907)	72 794 923

Reconciliation of investment property - 2014

	Opening balance	Disposals	Depreciation	Total
Investment property	72 794 923	(403 397)	(521 477)	71 870 049

Reconciliation of investment property - 2013 restated

	Opening balance	Depreciation	Total
Investment property	73 316 400	(521 477)	72 794 923

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

4. Property, plant and equipment

	2014			2013 restated		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	62 798 167	(5 037 789)	57 760 378	62 798 167	(4 079 806)	58 718 361
Plant and machinery	32 723 865	(15 287 567)	17 436 298	32 429 005	(13 003 374)	19 425 631
Motor vehicles	6 026 428	(1 416 471)	4 609 957	4 808 629	(996 389)	3 812 240
Office equipment	4 302 527	(2 237 853)	2 064 674	4 251 906	(1 654 467)	2 597 439
Computer equipment	2 117 203	(1 052 430)	1 064 773	1 858 450	(791 501)	1 066 949
Infrastructure	357 784 261	(133 385 812)	224 398 449	348 524 325	(106 748 965)	241 775 360
Community	30 431 306	(4 522 241)	25 909 065	29 945 085	(3 893 154)	26 051 931
Work in progress	96 709 476	-	96 709 476	60 071 358	-	60 071 358
Electricity	2 208 213	(496 849)	1 711 364	2 208 213	(397 480)	1 810 733
Landfill site	185 856	(13 275)	172 581	185 856	(10 620)	175 236
Park facilities	7 503 653	(1 238 250)	6 265 403	7 503 653	(990 600)	6 513 053
Wastewater network	732 964	(347 421)	385 543	732 964	(293 764)	439 200
Total	603 523 919	(165 035 958)	438 487 961	555 317 611	(132 860 120)	422 457 491

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand 2014 2013

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	58 718 361	-	-	(957 983)	57 760 378
Plant and machinery	19 425 631	294 859	-	(2 284 192)	17 436 298
Motor vehicles	3 812 240	1 217 800	-	(420 083)	4 609 957
Furniture and office equipment	2 597 439	50 621	-	(583 386)	2 064 674
Computer equipment	1 066 949	258 753	-	(260 929)	1 064 773
Road transport	241 775 360	9 259 935	-	(26 636 846)	224 398 449
Community	26 051 931	486 221	-	(629 087)	25 909 065
Work in progress	60 071 358	46 398 152	(9 760 034)	-	96 709 476
Electricity	1 810 733	-	-	(99 369)	1 711 364
Landfill site	175 236	-	-	(2 655)	172 581
Parks and recreation	6 513 053	-	-	(247 650)	6 265 403
Wastewater network	439 200	-	-	(53 657)	385 543
	422 457 491	57 966 341	(9 760 034)	(32 175 837)	438 487 961

Reconciliation of property, plant and equipment - 2013 restated

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	59 702 940	-	-	-	(984 579)	58 718 361
Plant and machinery	21 793 911	323 646	-	-	(2 691 926)	19 425 631
Motor vehicles	3 411 051	752 474	-	-	(351 285)	3 812 240
Office equipment	2 863 358	318 320	(8 051)	-	(576 188)	2 597 439
Computer equipment	966 779	355 625	(51 025)	-	(204 430)	1 066 949
Road transport	241 025 442	27 224 545	-	-	(26 474 627)	241 775 360
Community	21 005 409	5 640 207	-	-	(593 685)	26 051 931
Work in progress	42 534 512	49 278 198	-	(31 741 352)	-	60 071 358
Electricity	1 910 103	-	-	-	(99 370)	1 810 733
Landfill site	177 891	-	-	-	(2 655)	175 236
Parks and recreation	6 760 703	-	-	-	(247 650)	6 513 053
Wastewater network	512 641	-	-	-	(73 441)	439 200
	402 664 740	83 893 015	(59 076)	(31 741 352)	(32 299 836)	422 457 491

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. A full verification of movable assets was performed at year end. Assets with a carrying value of R1 923 556 (2013: R2 383 499) could not be found. The municipality is in the process of investigating the reasons why these assets could not be found and further action will be taken as a result of the investigation.

5. Intangible assets

	2014			2013 restated		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	619 205	(260 641)	358 564	580 105	(101 479)	478 626

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

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5. Intangible assets (continued)

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Depreciation	Total
Computer software, other	478 626	39 100	(159 162)	358 564

Reconciliation of intangible assets - 2013 restated

	Opening balance	Additions	Amortisation	Total
Computer software, other	355 473	208 868	(85 715)	478 626

6. Inventories

Water		301 424	91 076
Unsold properties held for resale		51 898 228	53 067 916
		52 199 652	53 158 992

Inventory relates to water reserves and property held for sale.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
7. Receivables from exchange transactions		
Trade debtors	12 673 142	8 964 636
Reallocation of receivables with credit balances to trade payables	575 251	547 747
Impairment of trade and other receivables	(8 113 861)	(6 455 033)
	5 134 532	3 057 350

Trade and other receivables from exchange transactions

2014

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Business	186 969	107 766	110 648	3 698 648	4 104 031
Government Departments	216 419	261 070	262 198	2 827 961	3 567 648
Service charges	1 948	5 721	5 456	200 691	213 816
Other	9 250	4 877	9 748	216 215	240 090
Residential	122 362	89 066	103 049	3 461 997	3 776 474
Vacant land	34 963	26 671	28 092	681 357	771 083
	571 911	495 171	519 191	11 086 869	12 673 142

Debtors by revenue type

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Service charges	126 920	114 833	102 585	1 387 373	1 731 711
Rental income	9 250	4 877	9 748	216 215	240 090
Water	435 741	375 461	406 858	9 483 281	10 701 341
	571 911	495 171	519 191	11 086 869	12 673 142

2013

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Business	144 139	148 140	133 030	2 868 107	3 293 416
Government Departments	60 236	53 264	58 956	1 043 289	1 215 745
Other	7 003	5 134	5 082	87 258	104 477
Rental Debtors	432	(1 744)	4 606	14 254	17 548
Residential	188 772	191 466	184 061	3 303 408	3 867 707
Vacant Land	20 629	22 288	20 382	402 444	465 743
	421 211	418 548	406 117	7 718 760	8 964 636

Debtors by revenue type

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Services charges	97 767	120 688	109 092	1 187 720	1 515 267
Rental income	432	(1 744)	4 606	14 254	17 548
Water	323 012	299 604	292 419	6 516 786	7 431 821
	421 211	418 548	406 117	7 718 760	8 964 636

Trade and other receivables past due but not impaired

At 30 June 2014, R4 471 639 (2013: R2 536 081) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

0 - 30 Days	436 990	270 429
31 - 60 Days	377 010	269 450
61 - 90 Days	339 507	246 982
> 90 days	3 318 132	1 749 220

Intsika Yethu Municipality

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7. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2014, trade and other receivables of R8 201 503 (2013: R6 455 146) were impaired and provided for.

The amount of the provision was R8 113 861 as of 30 June 2014 (2013: R6 455 033).

The ageing of these receivables is as follows:

0 - 30 Days	134 921	150 782
31 - 60 Days	118 161	149 097
61 - 90 Days	179 684	159 134
> 90 days	7 768 737	5 996 133

Reconciliation of provision for impairment of trade and other receivables

Opening balance	6 455 033	4 978 889
Provision for impairment	1 658 828	1 476 144
	8 113 861	6 455 033

8. Receivables from non-exchange transactions

Property rates	4 531 213	3 179 723
Reallocation of receivables with credit balances to trade payables	205 677	193 709
Impairment of trade and other receivables	(2 980 463)	(3 136 904)
	1 756 427	236 528

Receivables from non-exchange transactions

2014

	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Business	75 232	88 270	63 691	1 253 360	1 480 553
Government Departments	185 882	134 437	137 016	633 123	1 090 458
Other	(6 479)	3 393	3 978	157 023	157 915
Rental debtors	21 256	11 208	22 402	496 863	551 729
Residential	34 344	34 931	30 110	1 070 019	1 169 404
Vacant land	2 684	2 856	947	74 667	81 154
	312 919	275 095	258 144	3 685 055	4 531 213

Debtors by revenue type

	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Property rates	312 919	275 094	258 144	3 685 056	4 531 213

2013

	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Business	4	4 738	4 599	80 289	89 630
Government Departments	407	418	50	(9 498)	(8 623)
Other	(26)	55	54	170	253
Rental debtors	880	(3 556)	9 391	83 288	90 003
Residential	199 959	240 699	217 562	2 343 780	3 002 000
Vacant land	(991)	181	180	7 090	6 460
	200 233	242 535	231 836	2 505 119	3 179 723

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Figures in Rand	2014	2013			
8. Receivables from non-exchange transactions (continued)					
Debtors by revenue type	0 - 30 Days	31 - 60 Days	61 - 90 Days	> 90 days	Total
Property rates	200 233	242 535	231 836	2 505 119	3 179 723
Receivables from non-exchange transactions past due but not impaired					
At 30 June 2014, R1 349 349 (2013: R42 587) were past due but not impaired.					
The ageing of amounts past due but not impaired is as follows:					
0 - 30 Days				247 177	97 821
31 - 60 Days				214 583	141 126
61 - 90 Days				186 037	130 170
> 90 days				701 552	(326 530)
Receivables from non-exchange transactions impaired					
As of 30 June 2014, other receivables from non-exchange transactions of R1 247 582 (2013: R62 224) were impaired and provided for.					
The amount of the provision was R2 980 463 (2013: R3 136 904).					
The ageing of these receivables is as follows:					
0 - 30 Days				65 742	102 413
31 - 60 Days				60 511	101 409
61 - 90 Days				72 106	101 666
> 90 days				2 983 504	2 831 649
Reconciliation of provision for impairment of receivables from non-exchange transactions					
Opening balance				3 136 904	937 223
Provision for impairment				(156 441)	2 199 681
				2 980 463	3 136 904
9. VAT receivable					
VAT Receivable				4 363 392	268 905
10. Cash and cash equivalents					
Cash and cash equivalents consist of:					
Cash on hand				119 270	110 079
Bank balances				5 028 907	2 517 809
Short-term deposits				10 865 352	5 381 332
				16 013 529	8 009 220

Intsika Yethu Municipality

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10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
FNB 62022331003 (Cheque)	3 070 668	1 987 547	4 104 787	3 041 300	1 896 574	3 994 886
FNB 62101651398 (Cheque)	6 546 141	4 163 942	1 305 410	6 546 141	4 163 942	1 305 410
FNB 62022332316 (Money mkt)	3 580 088	333 000	58 120	3 580 088	322 790	58 120
FNB 62090678320 (Money mkt)	17 466	44 089	21 723	17 466	44 090	21 723
FNB 62240443820 (Cheque)	1 987 607	621 235	1 004 089	1 987 607	621 235	886 087
Standard Bank 088795101 (Closed)	-	-	11	-	-	(1 065)
FNB 94865858 (Closed)	-	-	-	-	-	75 170
ABSA 961149096 (32 day call)	661 484	643 410	20 038	661 484	643 411	625 772
FNB 62026740549 (Money mkt)	28 789	28 471	28 177	28 789	28 471	28 178
FNB 62027099234 (Closed)	-	-	241 956	-	-	241 956
FNB 62027101245 (Money mkt)	26 851	127 994	124 216	26 851	127 995	124 217
FNB 62160167500 (Money mkt)	4 533	40 632	40 055	4 533	40 633	40 055
FNB credit card	-	-	-	-	106 537	-
Total	15 923 627	7 990 320	6 948 582	15 894 259	7 995 678	7 400 509

11. Discontinued operations

As of 1 July 2014, the municipality transferred the water services function back to the Chris Hani District Municipality. This will result in a reduction of future water services revenue and expenditure as detailed below. The revenue and expenditure has been separately disclosed in the statement of financial performance and the corresponding figures have been adjusted accordingly, as required by GRAP 100.

The property, plant and equipment relating to this function are already held by the Chris Hani District Municipality.

Surplus / Deficit

Revenue	29 762 307	27 100 129
Expenses	(26 533 994)	(25 711 184)
	3 228 313	1 388 945

12. Unspent conditional grants and receipts

Unspent conditional grants comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	1 001 395
Integrated National Electrification Programme Grant	-	8 462 331
	-	9 463 726

Movement during the year

Balance at the beginning of the year	9 463 726	1 305 410
Received during the year	48 481 920	57 455 590
Transferred to revenue during the year	(57 945 646)	(49 297 274)
	-	9 463 726

Non-current liabilities	-	-
Current liabilities	-	9 463 726
	-	9 463 726

See note 20 for reconciliation of grants from National/Provincial Government and conditions of the grants.

Intsika Yethu Municipality

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12. Unspent conditional grants and receipts (continued)

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

13. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Environmental rehabilitation - landfill site	213 195	6 032	219 227
Provision for long service	2 436 000	567 000	3 003 000
	2 649 195	573 032	3 222 227

Reconciliation of provisions - 2013 restated

	Opening Balance	Additions	Total
Environmental rehabilitation - landfill sites	404 165	(190 970)	213 195
Provision for long service	-	2 436 000	2 436 000
	404 165	2 245 030	2 649 195

Environmental rehabilitation provision

The provision relates to the rehabilitation of landfill sites.

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation using an interest rate of 2.8%.

The expected life of the Cofimvaba landfill site is projected to be +/-66 years from 30 June 2014.

Provision for long service

This provision relates to expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality.

14. Other financial liabilities

DBSA loan

Long - term borrowings	7 971 830	8 377 363
Short - term borrowings	512 186	363 388
	8 484 016	8 740 751

The loan is 20 years at a fixed interest rate of 5%. The capital is repayable in 40 equal six - monthly instalments, commencing on the last day of the first half of the year during which the first disbursement was advanced to the Borrower. Penalty interest shall be calculated with regard to actual period during which the amount payable remain unpaid, at a fixed interest rate of the loan, 5% plus 2 % (p.a). Penalty interest shall be compounded six- monthly (01 April to 30 September, and /or , 01 October to 31 March during the next calender year), payable on demand.

Furthermore paragraph 10.1 of the agreement states that, DBSA shall be entitled, after giving the borrower 30 days written notice, to suspend drawdowns from the loan or to terminate this agreement and to claim from the borrower immediate payment from the outstanding amount should the borrower commit any breach of this agreement.

Intsika Yethu Municipality

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15. Payables from exchange transactions

Trade payables	28 874 021	6 081 177
Payroll suspense	851 735	101 522
Unallocated receipts	1 709 173	2 328 725
Accrued bonus	1 590 491	1 358 203
Sundry payables	1 883 931	741 456
Accrued leave	5 133 987	3 952 598
	40 043 338	14 563 681

16. Financial instruments disclosure

Categories of financial instruments

2014

Assets

	Financial assets at fair value	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
Receivables from exchange transactions	-	5 134 532	-	5 134 532
Receivables from non exchange transactions	-	1 756 427	-	1 756 427
Cash and cash equivalents	16 013 529	-	-	16 013 529
	16 013 529	6 890 959	-	22 904 488

Liabilities

Payables from exchange transactions	40 043 338	40 043 338
Other financial liabilities	8 484 016	8 484 016
	48 527 354	48 527 354

2013

Assets

Heading

Receivables from exchange transactions	-	3 057 350	-	3 057 350
Receivables from non exchange transactions	-	236 528	-	236 528
Cash and cash equivalents	8 009 220	-	-	8 009 220
	8 009 220	3 293 878	-	11 303 098

Liabilities

Trade and other payables from exchange transactions	14 563 681	14 563 681
Unspent conditional grants and receipts	9 463 726	9 463 726
Other financial liability	8 740 751	8 740 751
	32 768 158	32 768 158

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
17. Revenue		
Service charges	518 224	488 171
Rental of facilities and equipment	1 161 793	1 170 747
Interest received	1 798 900	840 130
Licences and permits	1 843 170	1 637 902
Other revenue	735 417	928 534
Property rates	3 181 193	3 162 661
Government grants and subsidies	173 300 297	144 800 690
Fines	407 506	397 911
	182 946 500	153 426 746
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	518 224	488 171
Rental of facilities and equipment	1 161 793	1 170 747
Interest received	1 798 900	840 130
Licences and permits	1 843 170	1 637 902
Other revenue	735 417	928 534
	6 057 504	5 065 484
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3 181 193	3 162 661
Transfer revenue		
Government grants and subsidies	173 300 297	144 800 690
Fines	407 506	397 911
	176 888 996	148 361 262
18. Property rates		
Rates received		
Property rates	3 181 193	3 162 661
Valuations		
Residential	69 649 700	69 649 700
Commercial	149 059 500	149 059 500
State	174 472 900	174 472 900
Municipal	225 277 609	225 277 609
Placement of worship	6 245 700	6 245 700
Private service infrastructure	55 605	55 605
Agriculture properties	14 792 722	14 792 722
Vacant land	13 903 548	13 903 548
Schools	3 130 000	3 130 000
Public Benefit Organisation	13 050 000	13 050 000
	669 637 284	669 637 284

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2014.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
19. Service charges		
Refuse removal	518 224	488 171
20. Government grants and subsidies		
Equitable share	99 780 000	88 676 000
CHDM grants	13 697 942	5 187 323
FMG	1 550 000	1 500 000
LG SETA	876 709	640 093
MIG	36 043 315	30 459 605
Integrated National Electrification Programme	19 462 331	16 537 669
MSIG	890 000	800 000
EPWP	1 000 000	1 000 000
	173 300 297	144 800 690
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	57 945 646	49 297 274
Unconditional grants received	115 354 651	95 503 416
	173 300 297	144 800 690
Equitable Share		
Current- year receipts	99 780 000	88 676 000
Amount transferred to revenue	(99 780 000)	(88 676 000)
	-	-
Municipal Infrastructure Grant		
Balance unspent at beginning of year	1 001 395	1 305 410
Current-year receipts	35 041 920	30 155 590
Conditions met - transferred to revenue	(36 043 315)	(30 459 605)
	-	1 001 395
Conditions still to be met - remain liabilities (see note 12).		
The grant was received from national treasury for infrastructural development purposes.		
LG SETA		
Current-year receipts	876 709	640 093
Amount transferred to revenue	(876 709)	(640 093)
	-	-

The grant was received from the Department of Local Government for training purposes and is not conditional.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

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20. Government grants and subsidies (continued)

Integrated National Electrification Programme

Balance unspent at beginning of year	8 462 331	-
Current-year receipts	11 000 000	25 000 000
Conditions met - transferred to revenue	(19 462 331)	(16 537 669)
	<u>-</u>	<u>8 462 331</u>

Conditions still to be met - remain liabilities (see note 12).

The grant was received from National Treasury for electrification of the community.

Financial Management Grant

Current-year receipts	1 550 000	1 500 000
Conditions met - transferred to revenue	(1 550 000)	(1 500 000)
	<u>-</u>	<u>-</u>

The grant was received from National Treasury for financial management support.

Municipal Systems Improvement Grant

Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(890 000)	(800 000)
	<u>-</u>	<u>-</u>

The grant was received for infrastructure improvement purpose.

Chris Hani District Municipality Grants

Current-year receipts	13 697 942	5 187 323
Amount transferred to revenue	(13 697 942)	(5 187 323)
	<u>-</u>	<u>-</u>

The grant was received from Chris Hani District Municipality for operations and is not conditional.

Extended Public Works Program Grant

Current-year receipts	1 000 000	1 000 000
Amount transferred to revenue	(1 000 000)	(1 000 000)
	<u>-</u>	<u>-</u>

The grant was received from Department of Public Works for Extendent Public Works Programme and is not conditional.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 10 of 2014), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
21. Other revenue		
Administration fees	56 221	81 894
Penalty fee income	104 369	225 452
Bad debt recovered	165 786	399 446
Other income	409 041	221 742
	735 417	928 534
22. General expenses		
Advertising	605 025	462 909
Auditors remuneration	4 823 407	3 174 572
Bank charges	259 353	269 125
Cleaning	92 320	86 442
Consulting and professional fees	8 371 854	4 901 184
Mayoral programmes	3 064 983	1 878 454
Entertainment	157 851	347 300
Hire of equipment	386 466	148 080
Insurance	293 278	649 042
IT expenses	1 494 515	1 985 727
Lease rentals on operating lease	1 006 606	678 447
Marketing	-	39 366
Community development	8 087 861	5 699 627
Motor vehicle expenses	2 936 345	2 098 828
Landfill sites maintainance	609 457	1 522 104
Fuel and oil	4 015 484	3 802 831
Postage and courier	1 557	1 978
Printing and stationery	430 860	519 625
Protective clothing	208 728	212 675
Security	139 949	209 613
Telephone and fax	1 060 838	479 969
Training	622 250	1 161 720
Subscription and membership	1 367 966	309 412
Electricity	613 916	50 152
Travel and accommodation	2 921 612	3 106 121
Books and publications	101 690	173 105
Conferences and seminars	96 581	429 144
Free basic electricity	1 345 260	2 270 612
Speakers programmes	1 243 822	579 381
Stores and materials	130 011	99 395
Other expenses	636 893	733 442
Ward committees	1 578 150	140 700
Valuation roll	536 905	957 159
Catering	383 456	410 541
	49 625 249	39 588 782

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
23. Personnel costs		
Basic	56 871 184	47 067 027
Bonus	2 898 020	2 961 626
SDL	1 024 490	965 050
Leave pay provision charge	1 395 086	971 972
Travel, motor car, accommodation, subsistence and other allowances	3 356 698	3 357 315
Overtime payments	1 950 009	1 032 116
Long-service awards	567 000	354 000
Acting allowances	169 017	263 328
Housing benefits and allowances	5 212 408	4 651 671
	73 443 912	61 624 105

Remuneration of key management

2014	Basic salary	Performance bonus	Allowances	Back - pay and other refunds	Total
Mr Z Shasha	644 182	129 484	467 594	4 233	1 245 493
Mr M Dyushu - (Resigned 31/10/2013)	230 933	61 684	142 902	25 050	460 569
Mrs Y Mniki	569 912	88 119	425 451	3 746	1 087 228
Ms Mahlali	569 912	105 743	422 805	14 139	1 112 599
Mr S Koyo	569 912	88 119	459 955	121 569	1 239 555
Mr K Maceba	569 912	61 684	421 355	25 534	1 078 485
Mr. X.Ntikinca - (Appointed 01/02/2014)	239 024	-	174 065	8 466	421 555
	3 393 787	534 833	2 514 127	202 737	6 645 484
2013	Basic salary	Performance bonus	Allowances	Back - pay and other refunds	Total
Mr Z Shasha	678 903	29 881	432 862	17 542	1 159 188
Mr M Dyushu	568 689	26 436	394 177	65 128	1 054 430
Mrs Y Mniki	582 540	26 436	395 627	10 034	1 014 637
Ms Mahlali	587 709	35 248	401 587	11 687	1 036 231
Mr S Koyo	598 045	26 436	388 927	62 367	1 075 775
Mr K Maceba	554 903	26 436	391 127	30 220	1 002 686
	3 570 789	170 873	2 404 307	196 978	6 342 947

24. Remuneration of councillors

Executive Major	720 257	632 607
Chief Whip	595 294	569 054
Speaker	463 876	542 951
Councillors	10 949 868	9 794 784
	12 729 295	11 539 396

In-kind benefits

The salaries, allowances and benefits of the Councillors as disclosed 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 the Act.

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

25. Debt impairment

Contributions to debt impairment provision	1 502 386	3 675 825
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Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
26. Depreciation and amortisation		
Property, plant and equipment	32 175 881	32 299 835
Investment property	521 477	521 477
Intangible assets	159 162	85 715
	32 856 520	32 907 027
27. Finance costs		
DBSA loan	535 273	485 467
Other interest paid	6 032	11 427
	541 305	496 894
28. Auditors' remuneration		
Fees	4 823 407	3 174 572
29. Cash generated from operations		
Surplus	12 690 623	4 442 550
Adjustments for:		
Depreciation and amortisation	32 856 520	32 907 028
Gain (loss) on sale of assets and liabilities	483 199	(384 965)
Debt impairment	1 502 386	3 675 825
Movements in provisions	573 032	2 245 030
Changes in working capital:		
Inventories	959 340	(212 423)
Receivables from exchange transactions	(3 736 010)	(5 343 293)
Other receivables	699 220	(804 865)
Other receivables from non-exchange transactions	(1 363 457)	(1 212 354)
Payables from exchange transactions	25 479 655	3 738 880
VAT	(4 094 487)	5 739 113
Unspent conditional grants and receipts	(9 463 726)	8 076 745
	56 586 295	52 867 271

Intsika Yethu Municipality

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30. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Capital commitments 15 019 654 17 749 610

This committed expenditure will be financed from:

Government grants	15 019 654	5 888 230
Own resources	-	11 240 149
District Council grants	-	621 231
	15 019 654	17 749 610

This committed expenditure relates to infrastructure and will be financed by external loans, government grants and retained surpluses as above.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1 304 348	40 299
- in second to fifth year inclusive	2 035 487	-
	3 339 835	40 299

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

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	235 490	260 279
- in second to fifth year inclusive	2 721	1 537
	238 211	261 816

31. Contingencies

Contingent liability 520 000 213 000

The contingent liability relates to the following cases against the municipality:

- Vincemus Investment (Pty) Ltd Kempston Hire vs IYM;
- Mtshoba Siseko vs IYM;
- Atson Madabase vs IYM;
- Lulama Allen vs IYM;
- B. G. Buyaphi vs IYM;
- Mgudlwa Mveleli Thobela vs IYM
- Atson Madabase Phuphuma vs IYM;
- Seyisi Ntombizanele Priscilla vs IYM;
- Mgudlwa Mveleli Thobela vs IYM;
- Nokwanda Dohlanga Caterers vs IYM;

These cases are still pending and no judgement or final decision has been reached.

Intsika Yethu Municipality

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32. Related parties

Relationships

Mr Z. Shasha - Municipal Manager

Mr M. Shasha a councillor of the municipality is a brother to the Municipal Manager

Mrs Shasha a store manager is the wife to the brother of Mr Z. Shasha

Councillor N.F. Dangazele

M. Dangazele who is an intern is a son of councillor NF Dangazele

Councillor M. Gulubele

Mrs V Gulubele, wife of councillor M. Gulubele works as a general worker

Councillor N. Somdyala

N. Somdyala is a Public Participation officer is a sister of councillor N. Somdyala

Councillor S. Myataza

B Myataza a student (finance) is a daughter of S Myataza

Councillor Rhotyi

Mr Z. Rhotyi is a son of Councillor Rhotyi

Councillor S. Mkhunyana

L. Mkhunyana a student at ICT is a sister of councillor S. Mkhunyana

Mr Koyo

Mr L. Koyo is related to Mr Koyo (Senior manager in the technical department)

Councillor M Toni

Mrs Toni (Senior accountant revenue) is the wife of councillor M Toni

Members of key management

Refer to page 1 for the names of councillors and other key management

Related party transactions

Remuneration of key management: Refer to note 23 and 24 for the remuneration of councillors and other key management.

33. Prior year adjustments

The municipality received an adverse audit opinion in the prior year. The following are the actions taken that have resulted in material changes to the comparative figures:

Property, plant and equipment

Included in property, plant and equipment in the prior year was property that met the definition of investment property and properties that were available for sale. These items have been reclassified as investment property and inventory respectively and are disclosed as such in the financial statements.

The system on which the municipality was maintaining its movable asset register was no calculating the depreciation correctly. Furthermore, there were a number of assets still in use that had been fully depreciated. The municipality did a full verification of assets during the current year and has reassessed the expected useful lives and residual values of all movable assets. Furthermore, depreciation was recalculated on all movable assets and the necessary adjustments made to accumulated depreciation.

Revenue and receivables

A reconciliation was performed between the valuation roll and the property rates billed for the year. It was identified that rates were being billed on municipal owned properties. These rates therefore had to be reversed as they had been incorrectly charged. Furthermore, the receivables in relation to these rates were also restated accordingly.

Trade payables and expenditure

The provision for impairment was incorrectly calculated in the prior year and were also amended accordingly.

Expenditure was not captured correctly on the accounting system and payments were captured directly against trade payables accounts without the related expenditure being raised. In other instances, the payable was raised, however when the payment was made, it was duplicated in the expenditure accounts, resulting in trade payables being misstated. The municipality has investigated trade payables and has passed journals to correct these differences.

Intsika Yethu Municipality

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33. Prior year adjustments (continued)

Personnel expenditure

Personnel costs were not being captured correctly in the accounting system and the payroll suspense accounts were not being cleared on a monthly basis. This resulted in significant balances being reflected on the payroll suspense accounts. The municipality has reconciled these accounts to the payroll system and processed the relevant corrections to the payroll suspense accounts and personnel expenditure.

Employee benefits

Employee benefit obligations were incorrectly calculated and disclosed in the prior year. These have been recalculated and the required prior period adjustments have been made.

Accumulated surplus

The prior year financial statements reflected a non-distributable reserve and revaluation reserve which related to the revaluations when the municipality moved from GAMAP to GRAP. However, in accordance with the GRAP statements, these adjustments should have been recognised directly in net surplus and not as reserves. These amounts have therefore been reallocated to accumulated surplus.

Discontinued operations

As disclosed in note 11 the water services function was handed back to Chris Hani District Municipality as from 1 July 2014. This has been reflected as a discontinued operation in the financial statements and the corresponding figures have been adjusted accordingly, as required by GRAP 100.

Contingent liabilities

Contingent liabilities incorrectly included amounts that related to cases for the municipality. These cases have been removed and only the amounts relating to cases against the municipality have been included.

Unauthorised expenditure

Unauthorised expenditure for the prior year was recalculated as a result of adjustments made to revenue and expenditure as noted above. Furthermore, the amount awaiting condonation was incorrectly deducted from the closing balance of unauthorised expenditure in the prior year.

Irregular expenditure

A full review of all the payment batches from the prior year was performed to ensure that the supply chain management processes had been followed and that all irregular expenditure for the prior year had been identified. Additional irregular expenditure which was not identified in the prior year was identified and the financial statements were amended accordingly.

Correction of errors resulted in the following prior year adjustments:

Inventory

Opening balance as previously reported	-	91 076
Reclassification from municipal properties (PPE)	-	53 067 916
		<hr/>
	-	53 158 992

Land that is available for sale was incorrectly included as property, plant and equipment in the previous year. The land has been reclassified as inventory.

The amounts have been reclassified retrospectively and comparative figures have been appropriately restated.

Intsika Yethu Municipality

Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013
33. Prior year adjustments (continued)		
Receivables from exchange transactions		
Opening balance as previously reported	-	6 038 748
Prior year adjustment	-	(2 981 398)
	-	3 057 350

The prior year adjustment relates to the correction of the provision for impairment that was incorrectly calculated in the previous year and incorrect classifications within receivables from exchange transactions.

The error has been corrected retrospectively and comparative figures have been appropriately restated.

Receivables from non-exchange transactions		
Opening balance as previously reported	-	7 418 543
Reclassification from other receivables	-	(3 605 875)
Prior year adjustment	-	(3 576 140)
	-	236 528

The provision for impairment was incorrectly classified under Other receivables in the prior year. The prior year adjustment relates to the correction of the calculation for the provision for impairment, amounts incorrectly classified as receivables from non-exchange transactions, raising of property rate debtors that were incorrectly reversed during the prior year, reversal of invalid balances and a reversal of rates that were incorrectly charged on municipal owned properties.

The error has been corrected retrospectively and comparative figures have been appropriately restated.

Vat receivable		
Opening balance as previously reported	-	722 959
Prior year adjustment	-	(454 054)
	-	268 905

The prior year adjustments was as a result of rental income being raised on properties, clearing of the payroll and bank reconciliations, the correction of Vat being incorrectly claimed on DBSA loan payments and the correction of trade payable accounts.

The error has been corrected retrospectively and comparative figures have been appropriately restated.

Cash and cash equivalents		
Opening balance as previously reported	-	7 722 364
Prior year adjustment	-	286 856
	-	8 009 220

The prior year adjustment relates to the clearing of invalid items on the bank reconciliation and correction of trade payables accounts.

The error has been corrected retrospectively and comparative figures have been appropriately restated.

Intsika Yethu Municipality

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Figures in Rand	2014	2013
33. Prior year adjustments (continued)		
Other receivables		
Opening balance as previously reported	-	3 668 533
Reclassification to receivables from non-exchange transactions	-	3 605 875
Reclassification to payables	-	(3 951 924)
Reclassification from provisions	-	(534 833)
Prior year adjustment	-	(1 847 040)
	-	940 611

The prior year adjustments relate to the clearing of the payroll suspense accounts and the reversal of invalid balances disclosed in prior year.

The error has been corrected retrospectively and comparative figures have been appropriately restated.

Investment property

Opening balance as previously reported	-	-
Reclassification from property, plant and equipment	-	72 794 923
	-	72 794 923

Investment properties were incorrectly disclosed as property, plant and equipment in the prior year.

The reclassification has been corrected retrospectively and comparative figures have been appropriately restated.

Property, plant and equipment

Opening balance as previously reported	-	544 331 384
Reclassification to inventory	-	(50 320 028)
Reclassification to investment property	-	(72 794 923)
Prior year adjustment	-	1 241 058
	-	422 457 491

Investment properties and land available for sale were incorrectly classified as property, plant and equipment during the prior year. The prior year adjustments relate to the reversal of depreciation on the reclassified properties, reversal of assets that were previously incorrectly written off, correction of depreciation incorrectly calculated, changes in useful life and residual values, reversal of amounts incorrectly included in property, plant and equipment and the correction of assets that were transferred out in previous years.

The reclassification has been corrected retrospectively and comparative figures have been appropriately restated.

Intangible assets

Opening balance as previously reported	-	649 959
Prior year adjustment	-	(171 333)
	-	478 626

The prior year adjustment relates to the correction of depreciation due to changes in estimated useful life and expenditure being incorrectly classified as intangible assets.

The reclassification has been corrected retrospectively and comparative figures have been appropriately restated.

Intsika Yethu Municipality

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Notes to the Financial Statements

Figures in Rand	2014	2013
33. Prior year adjustments (continued)		
Payables from exchange transactions		
Opening balance as previously reported	-	24 398 568
Reclassification from other receivables	-	(3 951 924)
Prior year adjustment	-	(5 882 963)
		<u>14 563 681</u>

In the prior year, some of the payroll suspense accounts were incorrectly classified under other receivables. The prior year adjustment relates to the clearing of the payroll suspense accounts, clearing of invalid items on the bank reconciliations, correction of employee benefit obligations, correction of trade payables and amounts incorrectly allocated to payables.

The reclassification has been corrected retrospectively and comparative figures have been appropriately restated.

Provisions

Opening balance as previously reported	-	906 675
Reclassification to payables	-	(534 833)
Prior year adjustment	-	2 277 353
		<u>2 649 195</u>

The provision for 13th cheque bonuses was incorrectly classified as a provision instead of a payable in the previous year. Provisions were also incorrectly calculated in the prior year and these have been restated to the correct balances.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Other financial liability - current portion

Opening balance as previously reported	-	465 739
Prior year adjustment	-	(102 351)
		<u>363 388</u>

The short term portion of the DBSA loan was incorrectly calculated in the previous year.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Other financial liability - non-current portion

Opening balance as previously reported	-	8 297 504
Prior year adjustment	-	79 859
		<u>8 377 363</u>

The DBSA loan did not reconcile to the loan statement in the prior year and the short term portion was incorrectly calculated.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Revaluation reserves

Opening balance as previously reported	-	22 831 223
Reclassification to accumulated surplus	-	(22 831 223)
		<u>-</u>

In accordance with the accounting policies, property, plant and equipment and investment properties are held at amortised cost and not fair value. There have been no revaluations of properties in prior years to support the revaluation reserve as disclosed in prior years, therefore this has been reclassified as accumulated surplus in accordance with the GRAP statements.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

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33. Prior year adjustments (continued)

Other NDR

Opening balance as previously reported	-	407 153 589
Reclassification to accumulated surplus	-	(407 153 589)
	-	-

The other non-distributable reserves arose as a result of the revaluation of property, plant and equipment when the municipality moved from GAMAP to GRAP. In terms of the GRAP statements, this adjustments should have been taken directly against accumulated surplus and not the other non-distributable reserves.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Accumulated surplus

Opening balance as previously reported	-	97 126 542
Prior year adjustment	-	(1 126 061)
Reclassification from revaluation reserve	-	22 831 223
Reclassification from other NDR	-	407 153 589
	-	525 985 293

The revaluation reserve and other non-distributable reserve are not in accordance with the GRAP statements and have been reclassified as accumulated surplus. The prior year adjustment relates to changes in the net surplus for prior years as a result of the errors corrected.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Service charges

Opening balance as previously reported	-	4 258 163
Prior year adjustment	-	680
Discontinued operations	-	(3 770 672)
	-	488 171

The adjustment is as a result of clearing of long outstanding items on the bank reconciliation.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Rental of facilities and equipment

Opening balance as previously reported	-	885 378
Prior year adjustment	-	285 369
	-	1 170 747

The adjustment relates to rates that were incorrectly charged on municipal property. The revenue has therefore been classified as rental income.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Income from agency services

Opening balance as previously reported	-	512 904
Reclassification to other income	-	(512 904)
	-	-

Income from agency services has been reclassified to other income.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

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33. Prior year adjustments (continued)

Licences and permits

Opening balance as previously reported	-	1 123 773
Reclassification from other income	-	514 129
	-	1 637 902

Licences and permits were included under other income in the prior year.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Other income

Opening balance as previously reported	-	2 434 856
Reclassification from agency services	-	512 904
Reclassification to licences and permits	-	(514 129)
Reclassification to government grants	-	(700 000)
Reclassification from fines	-	(397 911)
Prior year adjustments	-	(407 186)
	-	928 534

The prior year adjustments relates to the incorrect classifications of other income in the prior year.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Interest received

Opening balance as previously reported	-	41 874
Reclassification from property rates	-	813 983
Discontinued operations	-	(15 727)
	-	840 130

Interest received on receivables from exchange and non-exchange transactions was incorrectly included as part of income from property rates in prior year.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Property rates

Opening balance as previously reported	-	8 987 332
Reclassification to interest received	-	(813 983)
Prior year adjustment	-	(5 010 688)
	-	3 162 661

Interest received on receivables was incorrectly included as part of property rates in the prior year. Rates were incorrectly charged on municipal properties in the prior year and therefore had to be reversed.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Government grants and subsidies

Opening balance as previously reported	-	167 227 042
Reclassification from other income	-	700 000
Discontinued operations	-	(23 313 730)
Incorrect classifications	-	187 378
	-	144 800 690

Government grants were incorrectly classified as other income in the prior year. Prior year spending was not all recognised as revenue.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

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33. Prior year adjustments (continued)

Personnel expenditure

Opening balance as previously reported	-	75 974 944
Reclassification from expenditure	-	4 222 087
Reclassification to remuneration of councillors	-	(2 767 613)
Discontinued operations	-	(13 224 890)
Prior year adjustment	-	(2 580 423)
	-	<u>61 624 105</u>

Certain categories of personnel costs were incorrectly disclosed as part of expenditure or councillors remuneration in the prior year. The prior year adjustment relates to adjustments made to employee benefit obligations which were incorrectly calculated in the prior year, clearing of payroll suspense accounts, clearing of invalid items on the bank reconciliations and correction of trade payables accounts.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Remuneration of councillors

Opening balance as previously reported	-	9 158 525
Reclassification to expenditure	-	(386 742)
Reclassification from compensation of employees	-	2 767 613
	-	<u>11 539 396</u>

Expenditure relating to personnel were incorrectly included as part of remuneration of councillors in the prior year.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Depreciation and amortisation

Opening balance as previously reported	-	33 999 990
Prior year adjustment	-	(1 092 963)
	-	<u>32 907 027</u>

Depreciation was incorrectly calculated in the prior year and depreciation had to be reversed as a result of certain properties being reclassified as inventory or investment property.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Finance costs

Opening balance as previously reported	-	492 051
Prior year adjustment	-	4 843
	-	<u>496 894</u>

The prior year adjustments are as a result of corrections made to the DBSA loan balances, correction of provisions and correction of trade payables accounts.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Debt impairment

Opening balance as previously reported	-	-
Reclassification from receivables	-	4 127 515
Prior year adjustment	-	(451 690)
	-	<u>3 675 825</u>

The debt impairment was incorrectly included as part of receivables in the prior year. Furthermore, the prior year calculation was not accurate and was amended accordingly.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

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33. Prior year adjustments (continued)		
Repairs and maintenance		
Opening balance as previously reported	-	4 481 394
Prior year adjustment	-	868 464
Discontinued operations	-	(4 423 781)
	-	926 077

The prior year adjustment relates to the correction of trade payables accounts, assets incorrectly expensed and clearing of invalid items on the bank reconciliation.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Bulk purchases		
Opening balance as previously reported	-	598 936
Reclassification to expenditure	-	(73 954)
Prior year adjustment	-	147 292
Discontinued operations	-	(672 274)
	-	-

General expenditure items were incorrectly classified as bulk purchases in the prior year. The prior year adjustment relates to the correction of trade payables accounts.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Grants and subsidies paid		
Opening balance as previously reported	-	5 423 898
Reclassification to expenditure	-	(5 423 898)
	-	-

The amount disclosed as grants and subsidies paid in the prior year related to expenditure on grants received and has therefore been reallocated to expenditure.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

General Expenses		
Opening balance as previously reported	-	47 816 504
Reclassification to compensation of employees	-	(4 222 087)
Reclassification from bulk purchases	-	73 954
Reclassification to debt impairment	-	(4 127 515)
Reclassification from grants and subsidies paid	-	5 423 898
Reclassification from remuneration of councillors	-	386 743
Prior year adjustment	-	1 627 524
Discontinued operations	-	(7 390 239)
	-	39 588 782

General expenditure was incorrectly classified as grants and subsidies paid and bulk purchases in the prior year, and personnel costs and debt impairment were incorrectly included as part of general expenditure. The prior year adjustment relates to the reversal of invalid balances raised in the prior year, incorrect classifications of expenditure transactions, clearing invalid reconciling items on bank reconciliations and correction of trade payables accounts.

The adjustments have been corrected retrospectively and comparative figures have been appropriately restated.

Intsika Yethu Municipality

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33. Prior year adjustments (continued)

Discontinued operations

Opening balance as previously reported	-	-
Reclassification to discontinued operations	-	1 388 945
	-	1 388 945

Surplus from discontinued operations incorrectly classified as surplus from continuing operations in the prior year.

Unauthorised expenditure

Opening balance as previously reported	-	-
Amount awaiting condonation incorrectly deducted	-	34 492 041
Increase due to prior year adjustments	-	40 043 533
	-	74 535 574

In the prior year, the amount awaiting condonation was incorrectly deducted from the balance of unauthorised expenditure at year end. Additional overspending on the budgets was also identified as a result of the adjustments that were made to correct prior year errors relating to revenue and expenditure.

Irregular expenditure

Opening balance as previously reported	-	-
SCM processes not followed	-	19 956 342
	-	19 956 342

During the current year, all expenditure payments batches for the current and prior year were reviewed to ensure that the supply chain management processes had been followed and that all irregular expenditure for the prior year and current year had been identified and disclosed. Additional irregular expenditure which was not identified in the prior year was identified and the financial statements amended accordingly.

Contingent liability

Opening balance as previously reported	-	883 103
Prior year adjustment	-	(670 103)
	-	213 000

The prior year balance of contingent asset was incorrectly classified as contingent liability. The adjustment is to reverse the R833 103 contingent asset which is not required and raising the appropriate contingent liability of R213 000.

34. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassifications has been disclosed in the prior period error note 33 above.

35. Risk management

Financial risk management

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

Intsika Yethu Municipality

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35. Risk management (continued)

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. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Credit risk

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

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

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

Financial instrument	2014	2013
Trade and other payables	40 043 338	14 563 681
Receivables from exchange transactions	5 134 532	3 057 350
Receivables from non-exchange transaction	1 756 427	236 528
Cash and cash equivalents	16 013 529	8 009 220

Market risk

Interest rate risk

The municipality interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, the financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 14 to the annual financial statements.

Balances with banks, deposits, call current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer to note number 10.

Interest rate sensitivity analysis

The sensitivity analysis below assess the exposure of the Municipality to floating interest rates. Assuming that those financial instruments affected remain unchanged for the full financial year and that all other methods and assumptions used remain unchanged, the impact of a 100 basis points change in interest would result in an increase or decrease of R160 135 (2013: R80 092) in net surplus for the period.

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36. Events after the reporting date

The municipality is not aware of any events after 30 June 2014 that may have a material impact on the financial statements or require disclosure.

37. Unauthorised expenditure

Opening balance	74 535 574	-
Unauthorised expenditure	47 611 607	74 535 574
Amount condoned	-	-
	122 147 181	74 535 574

38. Fruitless and wasteful expenditure

Opening balance	695 023	620 033
Fruitless and wasteful expenditure	122 340	74 990
	817 363	695 023

Fruitless and wasteful expenditure relates to interest paid to the following service providers

AGSA	97 878	66 884
Telkom	20 310	5 468
Cape Joint	-	1 739
Eskom	4 152	899
	122 340	74 990

39. Irregular expenditure

Opening balance	19 956 372	-
Current year irregular expenditure	14 245 695	24 320 659
Irregular expenditure condoned	-	(4 364 287)
	34 202 067	19 956 372

Irregular expenditure was due to non compliance with supply chain management policies and regulations.

Intsika Yethu Municipality

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40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	324 091	209 091
Current year subscription - (SALGA)	1 502 322	373 671
Amount paid - current year	(814 807)	(258 671)
	1 011 606	324 091

Material non-compliance with MFMA

The municipality has not fully complied with the following material sections of the MFMA:

Section 15

Expenditure was not incurred in accordance with the approved budget and was in excess of the limits of the amounts provided for in the votes of the approved budget.

Section 122

Material errors in the financial statements were identified during the audit process, the majority of which have been corrected. This was as a result of the numerous errors from the prior year financial statements that had to be corrected in the current year and the limited timeframes in which the municipality had to prepare the AFS.

Sections 62(1)(d) and 32

Reasonable steps were not taken to prevent unauthorised and irregular expenditure and steps have not been fully implemented to manage the consequences of the irregular expenditure incurred.

Sections 62(1)(f)(iii) and sections 64(2)(e-g)

A credit control and debt collection policy was not implemented, as well as an effective control system to accurately record these. Interest was also not charged on all arrear accounts as required.

Audit fees

Opening balance	1 489 638	2 542 931
Current year fee	5 596 562	3 656 863
Amount paid - current year	(3 792 188)	(4 710 156)
	3 294 012	1 489 638

PAYE and UIF

Pension and Medical Aid Deductions

Current year subscription	5 780 910	5 545 930
Amount paid - current year	(5 780 910)	(5 545 930)
	-	-

VAT

VAT receivable	4 363 392	268 905
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VAT output payables and VAT input receivables are included in note 9.

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

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

Councillors' arrear consumer accounts

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

30 June 2014

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Bikitsha Mwezi Innocent	347	3 091	3 438

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.