



Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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

The financial statements have been prepared in accordance with Statements of Generally Accepted Municipal 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.

Management did make an assessment of the municipality's ability to continue as a going concern when the annual financial statements were compiled.

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

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

The financial statements set out on pages 5 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31st August 2014.

L.Y. Moletsane (Ms.)
Municipal Manager

Kopanong Local Municipality

Annual 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) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables

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

Allowance for slow moving, damaged and obsolete stock

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

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 municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance. The municipality does not hold any assets with the primary objective to generate a commercial return. Therefore, the municipality has assessed all assets as being non cash generating and has assessed impairment based on GRAP 21 Impairment of non-cash generating assets.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Provisions

Provisions were raised and management determined an estimate based on the information available.

Useful lives of waste and water network and other assets

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

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Inventories

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

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

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

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

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

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

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment are initially measured at cost.

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

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

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

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

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

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.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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

Subsequent measurement

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value. Land is not depreciated as it is deemed to have an indefinite useful life. Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

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

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

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement

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

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

Item	Average useful life
Land	None
Furniture and fixtures	1 - 10 years
Motor vehicles	7 - 10 years
Office equipment	3 - 5 years
IT equipment	5 years
Computer software	3 - 5 years
Electricity	3 - 100 years
Roads	5 - 100 years
Water and sanitation	10 - 100 years
Landfill sites	25 years

1.4 Financial instruments

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

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

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

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

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

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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

A financial asset is:

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

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

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

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

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

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

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.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Impairment and collectability of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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

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

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

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

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

Financial liabilities

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

Presentation

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

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

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

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

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

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

1.5 Leases

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

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

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 future minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between finance cost and capital repayment using the effective interest rate method. The accounting policies relating to derecognition of financial instrument are applied to lease payables. The lease asset is depreciated over the shorter of the assets useful or the lease term.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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

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

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.

1.6 Employee benefits

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

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

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

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

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

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

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

1.7 Provisions and contingencies

Provisions are recognised when:

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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.

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.

Provisions are not recognised for future operating deficits.

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

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

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

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

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

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

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

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

The annual bonus provision and leave accrual amount, which relates to expected cost of bonus, incentive and performance related payments, have been disclosed in note 12 of the financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

Contingencies are disclosed in note 30.

1.8 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

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

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

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- There has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.10 Investment income

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

1.11 Comparative figures

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.12 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.13 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.

1.14 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure in relation to a municipality, that means—

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

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

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

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

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.

1.15 Use of estimates

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

1.16 Offsetting

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

1.17 Conditional grants and receipts

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.18 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.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.19 Intangible assets

An asset is identified as an intangible asset when it:

- Is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- Arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

Amortisation is provided to write down the intangible assets, on a straight line basis.

1.20 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.21 Impairment of cash-generating assets

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.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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).

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

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

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

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

Useful life is either:

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

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

- 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 and then it will be classified as a cash-generating asset.
- 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.

1.22 Presentation of currency

These financial statements are presented in South African Rand.

1.23 Investments

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

1.24 Budget information

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

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

The approved budget is prepared on a cash 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 budget for the economic entity includes all the entities approved budgets under its control.

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.

1.25 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources. Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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

Index	Page
Accounting officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6 - 7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 35
Notes to the Financial Statements	36 - 97
Appendixes:	
Unaudited Appendix A: Schedule of External loans	98

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Kopanong Local Municipality

Unaudited Appendix A

June 2014

Schedule of external loans as at 30 June 2014

	Interest rate	Redeemable	Balance at 30 June 2013	Received during the period	Redeemed written off during the period	Balance at 30 June 2014	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
			Rand	Rand	Rand	Rand	Rand	Rand
Other loans								
Mangaung 2	10%	2014	20 035	-	20 035	-	-	-
Mangaung 3	10%	2025	93 195	-	7 766	85 429	-	-
Mangaung 4	10%	2015	64 478	-	32 239	32 239	-	-
Mangaung 5	10%	2023	446 886	-	44 689	402 197	-	-
Mangaung 6	10%	2024	168 343	-	15 304	153 039	-	-
Mangaung 7	10%	2024	199 104	-	18 100	181 004	-	-
Mangaung 8	10%	2023	116 338	-	11 634	104 704	-	-
Mangaung 9	10%	2024	264 179	-	24 015	240 164	-	-
Mangaung 12	10%	2025	701 027	-	58 419	642 608	-	-
			2 073 585	-	232 203	1 841 383	-	-

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

	Note(s)	2014(R)	2013(R)
Cash flows from operating activities			
Receipts			
Sale of goods and services		117 703 055	80 187 688
Grants		131 128 741	142 080 775
Interest income		4 520 899	6 512 616
Other income		13 042 576	1 877 902
		<u>266 395 271</u>	<u>230 658 981</u>
Payments			
Employee costs		(86 966 911)	(82 820 738)
Suppliers		(128 626 349)	(87 823 221)
Finance costs		(10 407 132)	(5 888 461)
		<u>(226 000 392)</u>	<u>(176 532 420)</u>
Total receipts		266 395 271	230 658 981
Total payments		(226 000 392)	(176 532 420)
Net cash flows from operating activities	20	<u>40 394 879</u>	<u>54 126 561</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(37 508 462)	(50 383 281)
Proceeds from sale of property, plant and equipment	9	-	524 788
Proceeds from sale of financial assets		-	-
		<u>(37 508 462)</u>	<u>(49 858 493)</u>
Cash flows from financing activities			
Repayment of current portion of long-term borrowing		(232 201)	(258 655)
Finance lease payments		-	(397 470)
Net cash flows from financing activities		<u>(232 201)</u>	<u>(656 125)</u>
Net increase/(decrease) in cash and cash equivalents		2 654 216	3 611 943
Cash and cash equivalents at the beginning of the year		1 053 476	(2 558 466)
Cash and cash equivalents at the end of the year	6	<u>3 707 692</u>	<u>1 053 477</u>

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

	Accumulated surplus (R)	Total net assets (R)
Balance at 01 July 2012	1 086 707 599	1 086 707 599
	(32 115 046)	(32 115 046)
Adjustments to changes in net assets		
Restated balance at 01 July 2012	1 054 592 553	1 054 592 553
Adjustment to Centlec Loan	258 655	258 655
Centlec loss	3 308 054	3 308 054
Write-off unknown debtors	(25 129)	(25 129)
Surplus/(loss) for the year	(43 899 162)	(43 899 162)
Adjustments to changes in net assets	(8 985 696)	(8 985 696)
Restated recognised income and expenses for the year	(52 884 858)	(52 884 858)
Balance at 01 July 2013	1 005 249 275	1 005 249 275
Changes in net assets		
Surplus/(loss) for the year	(55 470 711)	(55 470 711)
Balance at 30 June 2014	949 778 564	949 778 564

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Legal Form of entity	Local Municipality
Municipal demarcation code	FS162
Nature of business and principal activities	Providing municipal services as set out in the Constitution
Mayoral committee	
Speaker	Masana ME
Chief Whip	Dlomo LK
Executive Mayor	Matwa X T
Councillors	Basholo PD Dlomo LK Hageman HM Koyana T Masana ME Matseo MD Matwa XT Phafudi TA Phepheng D Rigala LA Shebe H Smit B Sola SA Spogter NC Stuurman NI
Grading of local authority	3
Chief Finance Officer (CFO)	M J Mekhoe
Accounting Officer	Mrs. L.Y. Moletsane
Registered office	20 Louw Street Trompsburg 9913
Postal address	Private Bag X23 Trompsburg 9913

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Bankers

First National Bank

Auditors

Auditor General of South Africa
Supreme Audit Institution of South Africa

Attorneys

Maduba Attorneys

Relevant legislation

Basic Conditions of Employment Act (Act no. 75 of 1997)
Division of Revenue Act
Electricity Act (Act no. 41 of 1987)
Employment Equity Act (Act. no. 55 of 1998)
Housing Act (Act no. 107 of 1997)
Income Tax Act (Act no 58 of 1962)
Municipal Finance Management Act (Act no. 56 of 2003)
Municipal Planning and Performance Management Regulations
Municipal Property Rates Act (Act no. 6 of 2004)
Municipal Structure Act (Act no. 117 of 1998)
Municipal System Act (Act no. 32 of 2000)
Skills Development Levies Act (Act no. 9 of 1999)
South African Local Bargaining Council Regulations
Supply Chain Management Regulation of 2005
Unemployment Insurance Act (Act no. 30 of 1996)
Value-Added Tax Act (Act no. 89 of 1991)
Water Services Act (Act no. 108 of 1997)

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 25: Employee benefits	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

GRAP 12 (as revised 2012): Inventories	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 13 (as revised 2012): Leases	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 16 (as revised 2012): Investment Property	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
IGRAP16: Intangible assets website costs	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
--	---------------	---

2.2 Standards and interpretations approved but not yet effective

In the current year, the municipality has adopted the following standard and interpretation that are approved, but not yet effective for the current financial year, but that are relevant to its operations:

GRAP 20: Related parties	No effective date	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
--------------------------	-------------------	---

2.3 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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 6: Consolidated and Separate Financial Statements	01 April 2014	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 7: Investments in Associates	01 April 2014	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 8: Interests in Joint Ventures	01 April 2014	It is unlikely that standard will have a material impact on the municipality's annual financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

GRAP32: Service Concession Arrangements: Grantor	01 April 2015	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP108: Statutory Receivables	01 April 2015	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	It is unlikely that standard will have a material impact on the municipality's annual financial statements.

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 105: Transfers of functions between entities under common control	No effective date	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
GRAP 106: Transfers of functions between entities not under common control	No effective date	It is unlikely that standard will have a material impact on the municipality's annual financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

GRAP 107: Mergers	No effective date	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
IGRAP 11: Consolidation – Special purpose entities	No effective date	It is unlikely that standard will have a material impact on the municipality's annual financial statements.
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	No effective date	It is unlikely that standard will have a material impact on the municipality's annual financial statements.

3. Inventories

Game	7 300	7 300
Stationery	54 285	116 100
Water	128 886	236 668
	190 471	360 068

4. Trade receivables from exchange transactions

4.1(a) Trade receivables from exchange transactions at gross values less impairment

Gross balances

Electricity	6 621 070	10 595 272
Housing rental	3 145 152	3 631 443
Refuse	13 507 464	21 811 951
Sewerage	18 741 725	29 736 221
Water	18 449 957	21 481 228
Sundry debtors	1 639 851	2 549 204
	62 105 219	89 805 319

Less: Allowance for impairment

Water	(15 314 500)	(20 146 558)
Sewerage	(15 430 850)	(29 421 674)
Refuse	(11 259 398)	(21 594 093)
Housing rental	(2 671 970)	(2 994 126)
Sundry Debtors	(546 156)	(32 550)
	(45 222 874)	(74 189 001)

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Net balance of trade receivables from exchange transactions

	6 621 070	10 595 272
Electricity		
Housing rental	473 182	637 317
Sundry Debtors	1 093 695	2 516 654
Refuse	2 248 066	217 858
Sewerage	3 310 875	314 547
Water	3 135 457	1 334 670
	16 882 345	15 616 318

4.1(b) Ageing of trade receivables from exchange transactions

Electricity trade receivables

Ageing not available	6 621 072	10 595 272
----------------------	-----------	------------

Housing rental trade receivables

Current -60 days)	51 535	663 887
31 - 60 days	38 324	47 031
61 - 90 days	34 908	46 747
91 - 120 days	34 609	42 560
120 + days	2 985 776	2 831 218
less: Provision for impairment	(2 671 970)	(2 994 126)

473 182	637 317
----------------	----------------

Refuse trade receivables

Current (0 -30 days)	725 625	696 474
31 - 60 days	522 794	560 880
61 - 90 days	494 921	523 848
91 - 120 days	478 857	507 438
120 + days	11 285 268	19 523 311
less: Provision for impairment	(11 259 398)	(21 594 093)

2 248 067	217 858
------------------	----------------

Sewerage trade receivables

Current (0 -30 days)	996 353	946 685
31 - 60 days	724 605	772 980
61 - 90 days	685 917	720 426
91 - 120 days	663 011	700 674
120 + days	15 671 839	26 595 456
less: Provision for impairment	(15 430 850)	(29 421 674)

3 310 875	314 547
------------------	----------------

Water trade receivables

Current (0 -30 days)	1 468 269	2 104 404
31 - 60 days	1 103 060	877 536
61 - 90 days	904 277	630 726

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

91 - 120 days	978 868	650 222
120 + days	13 995 483	17 218 340
less: Provision for impairment	(15 314 500)	(20 146 558)

3 135 457 **1 334 670**

4.1(c) Reconciliation of allowance for impairment of trade receivables from exchange transactions

Balance at beginning of the year	(74 189 001)	(74 211 552)
Contributions to allowance	20 271 512	(8 014 261)
Debt impairment written off against allowance	8 694 615	8 036 812

(45 222 874) **(74 189 001)**

4.1(d) Sundry Debtors included with trade with trade receivables from exchange transactions

Sundry Debtors	1 639 851	2 516 654
Less: Provision for bad debt impairment	(546 156)	-

1 093 695 **2 516 654**

4.1(e) Fair value determination of trade receivables from exchange transactions

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

4.1(f) Summary of trade receivables from exchange transactions by customer classification

Consumers

Current (0 -30 days)	4 071 407	2 411 621
31 - 60 days	2 755 080	2 092 233
61 - 90 days	2 456 896	1 848 661
91 - 120 days	54 075 834	71 603 925

Less: Allowance for impairment	63 359 217	77 956 440
	(52 620 738)	(76 536 945)

10 738 479 **1 419 495**

Industrial/ commercial

Current (0 -30 days)	99 366	543 916
31 - 60 days	81 548	241 932
61 - 90 days	79 921	200 412
91 - 120 days	1 149 921	7 951 806

Less: Allowance for impairment	1 410 756	8 938 066
	(1 104 021)	(7 545 392)

306 735 **1 392 674**

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

National and provincial government

Current (0 -30 days)	6 434	105 014
31 - 60 days	5 474	70 566
61 - 90 days	5 324	35 718
91 - 120 days	236 780	2 329 428
	<hr/>	<hr/>
	254 012	2 540 726
Less: Allowance for impairment	(236 755)	(2 139 925)
	<hr/>	<hr/>
	17 257	400 801

Total

Current (0 -30 days)	4 177 207	3 060 552
31 - 60 days	2 842 102	2 404 731
61 - 90 days	2 542 141	2 084 793
91 - 120 days	55 462 535	98 214 311
	<hr/>	<hr/>
	65 023 985	105 764 387
Less: Allowance for impairment	(53 961 514)	(82 301 436)
	<hr/>	<hr/>
	11 062 471	23 462 951

4.1(g) Impairment considerations for trade receivables from exchange transactions

All debtor accounts with a balance outstanding for more than 90 days, is then flagged as doubtful.

The last 3 months' payments and levies of these individual accounts are then examined as follows, to determine whether to impair, or not.

1. If the payments for the last 3 months do not exceed the levies, then the total debt is impaired, because the debtor cannot even repay current debt, let alone long-outstanding debt.
2. If the payments for the last 3 months exceed the levies, but it does not repay at least 10% of the 90 day+ debt, then the total debt is impaired, because the debtor cannot repay long-outstanding debt.
3. The Provision for impairment on the Sundry Debtors (loans and receivables) exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

4.2(a) Receivables from non-exchange transactions (taxes and transfers)

Property rates	11 789 058	15 062 196
Allowance for impairment	(8 738 639)	(12 033 262)
	<hr/>	<hr/>
	3 050 419	3 028 934

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

4.2(b) Ageing of property rates

Unallocated receipts on service charges at 30 June 2011	1 509 496	1 016 878
31 - 60 days	469 020	398 964
61 - 90 days	430 460	374 624
91 - 120 days	9 380 082	13 271 730
Less: Provision for bad debt impairment	(8 738 639)	(12 033 262)
	3 050 419	3 028 934

4.2(c) Other receivables from non-exchange transactions

The average credit period for Sundry Debtors is more than 120 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality enforces its approved credit control policy to ensure the recovery of sundry debtors.

The management of the municipality is of the opinion that the carrying values of sundry debtors are approximate their fair values.

The fair value of sundry debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and National/Provincial Departments as well as sundry debtors. The current payment ratios of sundry debtors were also taken into account for fair value determination.

4.2(d) Other receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired.

At 30 June 2014, R3 050 419 (2013: R3 028 934) were past due but not impaired.

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

0 - 30 Days	1 509 497	1 016 878
31 - 60 Days	469 020	398 964
61 - 90 Days	430 460	374 624
91 - 120 Days	641 442	1 238 468
	3 050 419	3 028 934

5. Other receivables from exchange transactions

5.1(a) Other receivables from exchange transactions at gross values

Other Receivables	9 616 541	64 384
Creditors with negative balances	31 046	-
Leave debtors	166 285	166 285
	9 813 872	230 669

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

5.1(b) Fair value determination for other receivables from exchange transactions

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

5.1(c) Other receivables from exchange transactions impaired

Receivables were impaired in accordance to the likelihood of non-recoverability, which in turn was based on the days outstanding. This was done practically by implementing a risk matrix which assigns deferent risk levels to debtors on the basis of their oldest debt. Each level of risk was then impaired partially accordingly.

5.2 Other receivables from non-exchange transactions impaired

As of 30 June 2014, other receivables from non-exchange transactions of R8 738 639 (2013: R12 033 262) were impaired and provided for.

The fair value of the provision was R8 738 639 as of 30 June 2014 (2013: R12 033 262).

The ageing of these loans is as follows:

3 to 6 months	1 747 728	2 406 652
Over 6 months	6 990 911	9 626 610

The Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a Debtor, the municipality considers any changes in the credit quality of the Debtor from the date credit was initially granted up to the reporting date. Management believe that there is no further credit provision required in excess of the Provision for Impairment.

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash on hand	30 084	30 084
Bank balances	117 363	722 290
Bank overdraft	(469 909)	-
	(322 462)	752 374
Current assets	147 447	752 374
Current liabilities	(469 909)	-
	(322 462)	752 374

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

The municipality had the following bank accounts:

Account number / description	<u>Bank statement balances</u>			<u>Cash book balances</u>		
	<u>30 June 2014</u>	<u>30 June 2013</u>	<u>30 June 2012</u>	<u>30 June 2014</u>	<u>30 June 2013</u>	<u>30 June 2012</u>
FNB - Business cheque account - 6202 195 027 6	(439 567)	568 680	(5 884 094)	(469 909)	568 680	(5 890 357)
Standard Bank - Business cheque account - 04 191 730 8	17 908	47 115	60 238	17 908	47 115	60 238
ABSA - Business cheque account - 246 014 2140	24 735	61 150	74 038	24 735	61 150	74 038
Post - Bank Current account-00088133677	74 720	45 345	197 132	74 720	45 345	197 132
Total	(322 204)	722 290	(5 552 686)	(352 546)	722 290	(5 558 949)

For the purpose of the cash flow statement note 6 and 7 has been considered.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

7. Investments

Unlisted investments

The investments consisted out of call accounts and a 32 day account, therefore it was not listed. None of the investments were pledged for security. The market no council valuation was necessary.

The municipality had the following investment accounts:

Investment name	Account Number	Opening balance as at 1 July 13	Closing balance at 30 June 2014	Short term portion	Long term portion
Salaries	62111778976	13 726	7 098	7 098	-
INEP	62422631821	-	70 956	70 956	-
DWA	62422629280	-	2 595 609	2 595 609	-
MSIG	62422630005	-	694 030	694 030	-
Salaries	74433526298	-	-	-	-
Salaries	74433525282	-	-	-	-
Salaries	74433523997	-	7 345	7 345	-
MIG	62422632423	-	1 921	1 921	-
EPWP	62422630857	-	80 806	80 806	-
FMG	62422626806	-	20 989	20 989	-
Savings	74366785268	22 911	23 431	23 431	-
MWIP	62366782003	264 465	527 70	527 970	-
		301 102	4 030 154	4 030 154	-

8. Unpaid Conditional Grant

Unpaid Conditional Grants

- 2 745 264

- 2 745 264

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	466 232 248	(123 674 304)	342 557 944	462 538 841	(100 636 355)	361 902 485
Infrastructure	1 497 530 978	(765 762 165)	731 768 814	1 464 043 894	(722 730 682)	741 313 213
Other property, plant and equipment	16 771 985	(8 178 351)	8 593 634	17 122 655	(5 536 665)	11 585 990
Total	1 980 535 211	(897 614 820)	1 082 920 392	1 943 705 390	(828 903 702)	1 114 801 688

Reconciliation of property, plant and equipment – 2014

	<u>Opening balance</u>	<u>Additions</u>	<u>Work in Progress</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Depreciation and Impairment</u>	<u>Total</u>
Buildings	361 902 486	-	3 693 408	-	-	(23 037 949)	342 557 945
Infrastructure	741 313 212	31 125 543	2 361 541	-	-	(43 031 482)	731 768 814
Other property, plant and equipment	11 585 990	327 970	-	(358 030)	-	(2 962 298)	8 593 633
	1 114 801 688	31 453 513	6 054 949	(358 030)	-	(69 031 729)	1 082 920 392

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Reconciliation of property, plant and equipment – 2013

	<u>Opening balance</u>	<u>Additions</u>	<u>Work in Progress</u>	<u>Disposals</u>	<u>Depreciation and Impairment</u>	<u>Total</u>
Buildings	380 472 887	1 077 193	974 596	-	(20 622 190)	361 902486
Infrastructure	736 673 184	16 297 323	30 810 853	-	(42 468148)	741 313 213
Other property, plant and equipment	12 941 127	1 223 315	-	(395 822)	(2 182 630)	11 585 990
	1 130 087 197	18 597 832	31 785 449	(395 822)	(65 272 968)	1 114 801 688

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
10. Consumer deposits			
Rates, water and refuse		2 424 082	2 139 502
Housing rental		8 296	330
		2 432 378	2 139 832

11. Provisions

Reconciliation of provisions – 2014

	<u>Opening Balance</u>	<u>Additions</u>	<u>Current portion</u>	<u>Non-Current portion</u>	<u>Total</u>
Provision for Landfill Site rehabilitation	12 748 746	892 414	-	13 641 159	13 641 158
Provision for Long Service Bonus	4 949 000	787 000	640 351	5 095 648	5 736 000
	17 697 746	1 679 414	640 351	18 736 807	19 377 158

Reconciliation of provisions – 2013

	<u>Opening Balance</u>	<u>Additions</u>	<u>Current portion</u>	<u>Non-Current portion</u>	<u>Total</u>
Provision for Landfill sites	11 914 716	834 030	-	12 748 746	12 748 746
Provision for Long Service Bonus	4 006 000	943 000	415 911	4 533 089	4 949 000
	15 920 716	1 777 030	415 911	17 281 835	17 697 746

Provision for Long Service Bonus

General description

The municipality offers employees a long service bonus for every 5 years that they have worked for the municipality.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

Reconciliation of accrued liability

Notes:

- (i) These projections assume that all the actuarial assumptions made are borne out in practice.
- (ii) The actual cost to the municipality will be dependent on future levels of assumed variables and the demographic profile of the membership.

Financial Assumptions

	Value p.a.
Discount rate	7.96%
CPI (consumer price inflation)	6.33%
Net effective discount rate	0.59%
Normal salary increase rate	7.33%

Discount Rate: GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

“The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Normal salary Inflation: We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between current conventional government bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets website. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2014 of 6.79%.

The next salary increase was assumed to take place on 1 January 2015.

Demographic Assumptions

Average retirement age	63
New members joining since previous valuation	22
Employees leaving service since the previous valuation	-12
Mortality during employment	SA 85-90

Withdrawal from service (sample annual rates)

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

<u>Age</u>	<u>Females</u>	<u>Males</u>
20-24	24%	16%
25-29	18%	12%
30-34	15%	10%
35-39	10%	8%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%
60+	0%	0%

Demographic assumptions are required to estimate the changing profile of current employees who are eligible for long service leave award benefits.

Pre-retirement Mortality: SA85-90 ultimate table, adjusted for female lives.

Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Average Retirement Age: The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 60, which then implicitly allows for expected rates of early and ill-health retirement.

Other Assumptions

It was assumed that the municipality's long service award benefit policy would remain as outlined in Section 3 over the next 36 months. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments.

Sensitivity analysis

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 20% increase and decrease in the assumed level of withdrawal rates;
- (i) A 1% increase and decrease in the assumed rate of normal salary cost inflation;

It indicates, for example, that if normal salary cost inflation is 1% greater than the long-term assumption made, the liability will be 8% higher than that shown.

Rehabilitation of landfill sites

The rehabilitation requirements as per the Minimum Requirements for Waste Disposal by Landfill (DWAF, 1998), creates an obligation for the Municipality for future expenditure which is provided for.

The provision was determined by an independent expert for the rehabilitation cost in 2014 and then approximated the expected future cash flows using reasonable estimation techniques. The discount rate used for all the landfill sites is based on a CPA rate that matures as close as possible to the future date of the rehabilitation, the rate is 7% for the

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

circumstances of the entity.

Landfills consist of the following sites with the following restoration dates:

Trompsburg landfill site—Estimated restoration date: 2038
Gariep dam landfill site - Estimated restoration date: 2038
Bethulie landfill site - Estimated restoration date: 2038
Edenburg landfill site - Estimated restoration date: 2038
Fauresmith landfill site - Estimated restoration date: 2038
Philippolis landfill site - Estimated restoration date: 2038
Reddersburg landfill site - Estimated restoration date: 2038
Jagersfontein landfill site - Estimated restoration date: 2038
Springfontein landfill site - Estimated restoration date: 2038

12. Trade and other payables from exchange transactions

Trade payables	108 113 117	83 207 798
Bethulie housing projects	14 665	14 665
Unallocated Deposits	263 956	1 492 428
Annual bonus provision	2 043 898	1 827 195
Leave accrual	6 558 030	5 716 605
Debtors payments in advance	7 516 191	7 355 952
	124 509 857	99 614 643

13. Other financial liabilities: long-term borrowings

At amortised cost

Mangaung 2	-	20 035
Kopanong replacement of propriety meters		
Mangaung 3	85 429	93 195
Road and public area lighting projects		
Mangaung 4	32 239	64 478
Replacement of domestic/commercial meters		
Mangaung 5	402 197	446 886
Upgrading low voltage network		
Mangaung 6	153 039	168 343
Kopanong ext. Upgrade & improvement of low voltage network		
Mangaung 7	181 004	199 104
Kopanong electrification		
Mangaung 8	104 704	116 338
Kopanong high mast lighting		
Mangaung 9	240 164	264 179
Kopanong highmast lights		
Mangaung 12	642 609	701 027

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)	2014(R)	2013(R)
Improvement of low voltage network	<u>1 841 385</u>	<u>2 073 585</u>
Total other financial liabilities	1 841 385	2 073 585
Non-current liabilities		
At amortised cost	<u>1 629 219</u>	<u>1 841 384</u>
Current liabilities		
At amortised cost	<u>212 166</u>	<u>232 201</u>
14. Current portion of Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure grant	-	(796 967)
DWA Municipal Water Infrastructure Grant	2 602 000	-
Arts and craft grant (Dept. of Sports and Culture)	500 000	500 000
Department of Minerals and Energy	-	1 907 556
Sludge Pump (COGTA)	4 285	4 285
Sport facilities grant (National Lottery)	301 981	301 981
Commonage grant (DBSA)	26 171	26 171
DWA National Transfers Programme	3 492 847	1 163 355
Bulk water DWA	321 057	-
	<u>7 248 340</u>	<u>3 104 381</u>
15. VAT payable		
VAT payables	4 919 509	1 272 955
	<u>4 919 509</u>	<u>1 272 955</u>
16. Revenue		
Sale of goods	2 877 059	1 841 210
Service charges	101 900 159	68 489 944
Rental of facilities and equipment	293 203	283 243
Fees earned	502 393	-
Rental income	743 228	895 762
Sundry income	6 204 570	454 221
Cleaning of erven	506	-
VAT from Capital Grants	5 225 198	-
Departmental water and sewerage	33 681	-
Interest received - investment	4 520 899	6 512 616

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Actuarial gain		333 000	-
Property rates		11 392 537	9 856 534
Government grants & subsidies		131 128 741	142 080 775
Fines		97 505	244 676
Treasury financial assistance		1 142 592	-
		266 395 271	230 658 981

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

Sale of goods		2 877 059	1 841 210
Service charges		101 900 159	68 489 944
Other revenue		293 203	283 243
Fees earned		502 393	-
Rental income		743 228	895 762
Sundry income		6 204 570	454 221
Cleaning of erven		506	-
VAT from Capital Grants		5 225 198	-
Departmental water and sewerage		33 681	-
Interest received – investment		4 520 899	6 512 616
Actuarial gain		333 000	-
		122 633 896	78 476 996

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

Taxation revenue

Property rates		11 392 537	9 856 534
----------------	--	------------	-----------

Transfer revenue

Government grants & subsidies		131 128 741	142 080 775
Fines		97 505	244 676
Treasury financial assistance		1 142 592	-

143 761 375 **152 181 985**

17. Investment revenue

Interest revenue

Bank		674 392	589 238
Interest charged on trade and other receivables		3 846 507	5 923 378

4 520 899 **6 512 616**

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
18. Finance costs			
Bank		30 266	135 313
Other interest paid		10 376 866	5 753 148
		10 407 132	5 888 461

19. Prior period errors

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

19.1 Property plant and equipment

Statement of financial position

Property, Plant and Equipment	(80 191 698)
Accumulated Depreciation	(27 098 537)

Statement of financial performance

Depreciation	(12 591 893)
--------------	--------------

Statement of changes in net assets

Changes in net assets	119 882 128
-----------------------	-------------

The error occurred due to the revaluation of Property, plant and equipment (Elim Farm, De Bruin Dam, Road Infrastructure that was not that of the municipality and the fair valuing of landfill sites).

Property, plant and equipment were restated due to fixed asset register being recompiled to adhere to GRAP. Infrastructure opening book value was decreased with R103 824 080.

Land, building and Farms opening book value was decreased with R7 385 581.

Other assets opening book value was increased with R3 919 426.

Depreciation was decreased with R12 591 893.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
19.2 Provision for Landfill sites rehabilitation adjustments			
Statement of Financial Position			
Non-current Provisions			(7 789 831)
Current portion of the Provisions			415 911
Statement of financial performance			
Finance cost		834 030	
Fair value adjustment		3 697 760	
Statement of Changes in Net Assets			
Changes in net assets			11 905 710
<p>The Provision for Landfill site rehabilitation was incorrectly calculated in the 2012/13 and 2011/12 financial period, due to incorrect actuarial calculations, therefore the provisions decreased with R7 373 920, finance cost increased with R834 030, the fair value adjustment revenue decreased with R3 697 760 and the change in net assets increased with R12 269 709, which results in a better disclosure and the unbundling of provisions.</p>			
19.3 Bonus Provision			
Statement of Financial Position			
Bonus Provision			269 520
Statement of financial performance			
Employee cost		269 520	
<p>The Bonus Provision schedule of the prior year was incorrectly calculated in 2012/13, which was detected during the 2013/14 financial period, therefore employee cost and the bonus provision had to increase with R269 520.</p>			
19.4 Investments			
Statement of Financial Position			
Cash and cash equivalents			(301 102)
Investments			301 102

The split was made due to better disclosure of the unbundling of cash and cash equivalents, therefore we increased the investments with R301 102 and decreased cash and cash equivalents with R301 102.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
19.5 Audit fees			
Statement of Financial Position			
Trade and other payables			342 089
Statement of financial performance			
Audit fees			342 089
<p>An adjustment is required based on supporting information obtained during the 2013/14 financial period, therefore audit fees increased and the trade and other payables increased with an amount of R342 089.</p>			
19.6 Grants			
Statement of Financial Position			
Unpaid Conditional Grant Liability		(2 745 264)	
Unpaid Conditional Grant Asset			2 745 264
<p>The adjustment was made to ensure better disclosure of the unspent conditional grants , therefore a decrease in the unspent conditional grant liability and an increase in the unspent conditional grant asset to the amount of R2 745 264 was made.</p>			
19.7 Receivables			
Statement of Financial Position			
Receivables from non- exchange transactions		3 028 934	
Trade Receivables from exchange transactions			(7 846 633)
Statement of Change in net assets			
Change in net assets			4 817 699
<p>The disclosure was made to ensure better disclosure and the unbundling of receivables as per the audit report of 2012/13. An adjustments was required for the difference between the systems and the annual financial statements in the 2012/13 financial period, therefore an increase in Receivables from non- exchange transactions of R3 028 934, a decrease in Trade Receivables from exchange transactions of R7 846 633 and a decrease in accumulated surplus of R4 817 699.</p>			
19.8 Operating expenditure			
Statement of Financial Performance			
Operating expenditure			6 661 412
Entertainment expense			57 895

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Performance Management System expense			1 708 675
Material and tools expense			3 541
Congress and delegation expense			237 888
Subsidised services expense			2 225 694
Cleaning expense			398 495
Repairs and maintenance expense			2 090 019
Ward Committees expense			373 906
Medical examinations expense			2 740
Accounting fees expense			554 645
Valuation cost and unbundling of assets expense			1 587 564
Farming land expense			5 655
Legal fees and relating interest expense			527 385
Subscriptions expense			825
Depreciation			(9 815 094)
Statement of Financial Position			
Accumulated Depreciation			26 416
Statement of Change in net assets			
Change in net assets			550 620

The disclosure was made to ensure better disclosure of expenditure amounts based on allocation errors identified during the 2013/14 financial period and the unbundling of the operating expenditure amount, therefore an increase in operating expenditure of R6 661 412, entertainment expense of R57 895 performance management system expense of R1 708 675, material and tools expense of R3 541, congress and delegation expense of R237 888, subsidised services expense of R2 225 694, cleaning expense of R398 495, repairs and maintenance expense of R2 090 019, ward committees expense of R373 906, medical examinations expense of R2 740, accounting fees expense of R554 645, valuation cost and unbundling of assets expense of R1 587 564, farming land expense of R5 655, legal fees and relating interest expense of R527 385, subscriptions expense of R825, a decrease in depreciation of R9 815 094, an increase in accumulated depreciation of R26 416 and an increase in accumulated surplus of R550 620.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
20. Cash generated from operations			
Deficit		(55 470 711)	(52 884 858)
Adjustments for:			
Depreciation and amortisation		69 031 729	65 272 968
Actuarial gain		(333 000)	-
Debt impairment		8 694 614	13 313 175
Movements in retirement benefit assets and liabilities		(226 000)	492 000
Movements in provisions		(5 694 507)	(10 128 680)
Changes in working capital:			
Inventories		169 597	(171 202)
Other receivables from exchange transactions		(9 583 203)	6 177 922
Other receivables from non-exchange transactions		(21 485)	(3 028 934)
Consumer debtors		(1 266 027)	(8 516 335)
Trade and other payables from exchange transactions		26 677 813	43 598 865
VAT payable		3 646 554	(1 945 404)
Current portion of Unspent conditional grants and receipts		4 143 959	1 166 839
Consumer deposits		292 546	780 205
		40 394 879	54 126 561
21. Government grants and subsidies			
Equitable share		88 141 933	91 177 579
Conditional grants		42 986 808	50 903 196
		131 128 741	142 080 775
Conditional and Unconditional			
Included in above are the following grants and subsidies received:			
Arts and craft grant (Dept. of Sports and Culture)		500 000	500 000
Balance unspent at beginning of year			
Conditions still to be met - remain liabilities (see note 14).			
COGTA grant - paid Auditor General			
Current-year receipts		-	2 314 781
Conditions met - transferred to revenue		-	(2 314 781)
		-	-

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Commonage Grant (DBSA)			
Balance unspent at beginning of year		<u>26 171</u>	<u>26 171</u>

Conditions still to be met - remain liabilities (see note 14).

Equitable Share

In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidise the provision of basic services to indigent community members and to subsidise income. No significant decrease is expected in the level of this grant.

Financial help (COGTA)

Current-year receipts	-	2 884 413
Conditions met - transferred to revenue	-	(2 884 413)
		<u>-</u>

Department of Minerals and Energy

Balance unspent at beginning of year	1 907 556	59 589
Current-year receipts	1 000 000	4 000 000
Conditions met - transferred to revenue	(1 000 000)	(2 152 033)
Withheld by Treasury	(1 907 556)	-
		<u>-</u>
		<u>1 907 556</u>

Conditions still to be met - remain liabilities (see note 14).

During the 2014/2015 July National Treasury off set the unspent conditional grant. These were an event after the balance sheet date, and management decided it is an adjusting event hence the grants have been reduced by such event.

Sludge Pump (COGTA)

Balance unspent at beginning of year	<u>4 285</u>	<u>4 285</u>
--------------------------------------	--------------	--------------

Conditions still to be met - remain liabilities (see note 14).

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Bulk Water DWA			
Balance unspent at beginning of year		(2 745 264)	377 876
Current-year receipts		24 825 836	9 522 683
Conditions met - transferred to revenue		(21 759 515)	(12 645 823)
		321 057	(2 745 264)
Conditions still to be met - remain liabilities (see note 14 and 8).			
Provide explanations of conditions still to be met and other relevant information.			
Expanded Public Works Programme			
Balance unspent at beginning of year		-	228 000
Current-year receipts		1 000 000	1 000 000
Conditions met - transferred to revenue		(1 000 000)	(1 228 000)
		-	-
Conditions still to be met - remain liabilities (see note 14).			
Provide explanations of conditions still to be met and other relevant information.			
Water Operating Grant – DWA			
Balance unspent at beginning of year		-	-
Current-year receipts		2 602 000	-
Conditions met - transferred to revenue		-	-
		2 602 000	-
Conditions still to be met - remain liabilities (see note 14).			
DWA National Transfers Programme			
Balance unspent at beginning of year		1 163 355	-
Current-year receipts		2 712 000	2 710 000
Conditions met - transferred to revenue		(382 508)	(1 548 645)
		3 492 847	1 163 355
Conditions still to be met - remain liabilities (see note 14).			

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
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>
Library grant			
Balance unspent at beginning of year		-	27 894
Current-year receipts		-	115 000
Conditions met - transferred to revenue		-	(142 894)
		<u>-</u>	<u>-</u>
Municipal infrastructure grant			
Balance unspent at beginning of year		(796 967)	71 693
Current-year receipts		22 331 000	23 521 000
Conditions met - transferred to revenue		(21 534 033)	(24 389 660)
		<u>-</u>	<u>(796 967)</u>
Conditions still to be met - remain liabilities (see note 14).			
Sport facilities grant (National Lottery)			
Balance unspent at beginning of year		<u>301 981</u>	<u>301 981</u>
Conditions still to be met - remain liabilities (see note 14).			
SITA grant			
Current-year receipts			428 866
Conditions met - transferred to revenue			(428 866)
		<u>-</u>	<u>-</u>

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Survey of even (COGTA)			
Balance unspent at beginning of year		-	78 082
Conditions met - transferred to revenue		-	(78 082)
		<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 14).			
Municipal Systems Improvement Grant			
Balance unspent at beginning of year		-	790 000
Current-year receipts		890 000	800 000
Conditions met - transferred to revenue		(890 000)	(1 590 000)
		<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 14).			
22. Property rates			
Rates received			
Residential		4 158 630	3 149 672
Commercial		2 635 119	2 273 043
State		4 598 788	4 433 819
		<u>11 392 537</u>	<u>9 856 534</u>
Property rates - penalties imposed		-	-
		<u>11 392 537</u>	<u>9 856 534</u>
Valuations			
Church		20 624 000	20 624 000
Commercial		102 462 884	102 462 884
Empty site, no tariff and municipal property		204 831 354	204 831 354
Hospital		409 000	409 000
Residential		628 780 901	628 780 901
School		50 830 000	50 830 000
Small holdings and farms		2 482 316 000	2 482 316 000
Less: Income forgone		154 458 672	154 458 672
		<u>3 644 712 811</u>	<u>3 644 712 811</u>

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.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
23. Service charges			
Refuse removal		7 410 612	6 919 280
Sale of electricity-Centlec		70 085 256	43 646 200
Sale of water		14 212 343	8 428 566
Sewerage and sanitation charges		10 191 948	9 495 898
		101 900 159	68 489 944
24. Actuarial gain			
Actuarial gain		333 000	-
		333 000	-
25. Bulk purchases			
Electricity		43 292 501	35 204 945
Water		21 937 503	20 344 277
		65 230 004	55 549 222
26. Bad debts			
Contributions to debt impairment provision		10 305 590	13 313 175
27. Employee related costs			
Basic		54 078 267	49 559 239
Bonus		5 840 085	4 213 823
Bonus provision		-	343 664
Car allowance		4 029 859	3 678 062
Housing benefits and allowances		108 479	110 531
Leave pay provision charge		-	3 911 415
Long-service awards		799 781	1 008 507
Medical aid		4 367 600	3 973 927
Other allowances		460 729	387 670
Overtime payments		2 257 628	1 831 087
Pension fund contributions		9 942 929	8 772 443
Leave provision		35 763	33 338
SDL		635 905	570 745
Telephone allowance		384 469	467 743
UIF		533 689	464 010
		83 475 183	79 326 204

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Remuneration of Municipal Manager			
Basic		685 800	592 477
Bonus		58 326	-
Leave pay		-	8 364
Travel allowance		269 242	269 242
Cell phone allowance		-	600
Back pay		15 911	7 521
Contributions to UIF, Medical and Provident Fund		26 440	25 322
		1 055 719	903 526
Remuneration of Chief Finance Officer			
Basic		594 106	556 249
Bonus		50 183	45 705
Back pay		9 387	-
Travel allowance		36 000	36 000
Contributions to UIF, Medical and Provident Fund		165 057	153 375
		854 733	791 329
Remuneration of Head Technical Services			
Basic		537 580	375 000
Bonus		45 387	-
Back pay		9 436	-
Travel allowance		143 750	218 750
Contributions to UIF, Medical and Provident Fund		86 668	1 487
		822 821	595 237

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

Remuneration of Head Corporate Services

Basic	569 008	473 479
Bonus	48 496	-
Back pay	12 953	-
Travel allowance	72 000	87 438
Cell phone allowance	1 772	-
Contributions to UIF, Medical and Provident Fund	120 012	97 919
	824 241	658 836

Remuneration of Head Community Services

The Director Community Services was only appointed on 01 April 2014.

Basic	137 001	-
Bonus	11 416	-
Travel Allowances	45 000	-
Contributions to UIF, Medical and Provident Fund	434	-
	193 851	-

The remuneration to the executive mayor, speaker, mayoral committee and councillors was as follows:

Description	Executive Mayor	Speaker	Mayoral Committee Members	Councillors
Basic salary	405 984,12	321 781,92	398 966,28	1 687 428,24
Pension and medical aid employer contributions	100 446,84	78 372,72	82 077,12	151 439,88
Travel allowance	161 387,28	129 109,80	66 572,28	320 496,69
Cell phone allowance	19 872,00	19 872,00	24 792,00	136 356,00
Total	687 690,24	549 136,44	572 407,68	2 295 720,81

28. General expenses

Administration and management fees	193 596	5 062 668
Advertising	210 998	198 007
Audit fees	3 222 311	4 347 917
Accounting fees	1 164 631	554 645
Bank charges	500 561	397 400

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Cleaning		40 179	453 213
Commission vendors		238 171	1 530 507
Congress and delegation		498 334	237 888
Contracted services		70 521	-
Legal fees and relating interest		892 014	817 210
Consumables		662	120
Entertainment		168 615	174 132
Insurance		497 500	504 356
Farming land		5 071	5 655
Garden fees		449	-
Community development and training		-	428 866
Rental expenses		1 372 859	675 833
Fuel and oil		1 476 954	1 579 154
Material and tools		8 145	3 542
Medical examinations		2 797	2 740
Postage and stamps		2 978	10 041
Printing and stationery		783 087	425 152
Protective clothing		34 367	100 478
Royalties and license fees		97 465	83 389
Repairs and maintenance		5 036 826	7 022 470
Software expenses		860 051	98 874
Subscriptions		708 784	459 675
Telephone and fax		1 267 050	1 627 531
Performance Management System		1 303 688	1 852 042
Training		284 376	68 234
Subsistence and travelling		1 483 882	1 546 325
Assets expensed		981 926	374 795
Departmental electricity		34 307 110	7 319 251
Water		2 819	4 726
Chemicals		21 169	944 556
Other expenses		17 469 803	17 600 719
Subsidised services		2 350 960	2 225 694
Valuation cost and unbundling of assets		2 003 728	1 587 564
Ward committees		360 178	373 906
		78 759 985	60 699 275

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

29. Remuneration of councillors

Mayor and Speaker	3 491 728	3 494 534
-------------------	-----------	-----------

In-kind benefits

The Mayor and Speaker are full time employees of the municipality. They are provided with an office and administration and support at the cost of the Council all remuneration made to councillors were within the upper limits of the framework set out in section 217 of the constitution as per the 2013 financial year.

30. Commitments

Authorised capital expenditure

Approved and contracted for

Property, plant and equipment	20 397 822	52 049 464
Other Financial Commitment	-	1 382 148
	20 397 822	53 431 612

This committed expenditure relates to infrastructure and will be financed by available bank facilities, retained surpluses, loans and government grants.

31. Contingencies

31.1 Employees unlawfully dismissed by the municipality

Litigation is in progress against the municipality relating to disputes and arbitration with former employees who allege that the municipality unlawfully dismissed them. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. However, it cannot be determined at this time when the disputes will be resolved or exactly how much claims and damages the municipality will be required to make. The estimated legal costs amount to R540 000. The settlement amounting to R457 084, 57 is still to be settled by municipality. There is currently no possibility of reimbursement.

31.2 Landfill sites

The municipality makes use of unregistered landfill sites, which could incur potential fines and penalties, the value and likelihood cannot be estimated reliably.

The municipality managed one landfill site without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community. There is currently no possibility of reimbursement.

31.3 Legal fees

Possible contingent liabilities for all legal cases are as follows:

Name of entity / subsidiary	Management description of matter	Management estimate of financial exposure (R)
NoziphoHayavs KLM	Review application of arbitration award at labour court	500 000
T.S. Mantshiyams	Review application of arbitration award at labour court	500 000
M. Makhambavs KLM	Application to review the arbitration award	500 000
HC Mothupi	Application to review the arbitration award	100 000
SAMWU M.Mothupi	Review of the arbitration award of labour court	400 000
	Total	2 000 000

There is currently no possibility of reimbursement.

32. Related parties

32.1 Key Management and Councillors

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

32.2 Supplier in service of the state

The following payments were made to a supplier in service of the state:

Supplier name	Supplier Director in service of state	Employed at	Payment reference	Amount of award (R')
Jake Events	Mr. G Chabane	Free State: Education Department	15026328	14 960

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

Supplier name	Supplier Director in service of state	Employed at	Payment reference	Amount of award
				(R')
Makomota Investments	Pule Herbert Makgoe	Former: MEC of FS Education	15028008	194 114
		Currently: Member of FS Legislature		
Makomota Investments	Pule Herbert Makgoe	Former: MEC of FS Education	15028825	80 940
		Currently: Member of FS Legislature		
MakomotalInvestments	Pule Herbert Makgoe	Former: MEC of FS Education	15030336	80 940
		Currently: Member of FS Legislature		
Makomota Investments	Pule Herbert Makgoe	Former: MEC of FS Education	15031349	14 410
		Currently: Member of FS Legislature		
			Total	385 364

33. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

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

2014

	Less than 1 year	More than 1 year
Consumer deposits	2 432 378	-
Trade and other payables	124 509 857	-
Long-term liabilities	212 166	1 629 219
Unspent conditional grants	7 248 340	-
Bank overdraft	469 909	-
	134 872 650	1 629 219

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
2013		Less than 1 year	More than 1 year
Consumer deposits		2 139 832	-
Trade and other payables		99 614 643	-
Long-term liabilities		232 201	1 841 384
Unspent conditional grants		3 104 381	-
Bank overdraft		-	-
		105 091 057	1 841 384

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates is minimal

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents vested in reputable financial institutions in South Africa, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to notes 4 and 5 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

Foreign exchange risk

The municipality does not engage in foreign currency transactions.

Price risk

The municipality is not exposed to price risk.

34. Going concern

We draw attention to the fact that at 30 June 2014, the municipality had a deficits of R55 470 711 and comparative of R52 884 858 (restated).

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for the ongoing operations for the municipality.

The Municipality is situated in a previously disadvantaged background and the community is not able to pay for services as a high percentage of the population is indigent. The collection rate of consumer debtors is therefore also low. This has resulted in a weak cash flow situation and as a result the municipality is not always able to settle its accounts within 30days. The Municipality does however receive government grants, such as an allocated equitable share grant in terms of the Division of Revenue Act and will therefore be operational as a going concern in the foreseeable future.

Through inspection of the DORA MTEF Framework it was identified that the Equitable share pending decreased from R88 546 000 in 2012 to R70 209 000 in 2017, which might have a possible negative impact on the operations and sustainability of the municipality.

The processes in place by the Municipality are as follows:

- Re-negotiating alternative credit terms with key suppliers which includes ongoing negotiations with Bloem Water for bulk purchases.
- Improved support from other state entities, for instance Centlec has now commenced providing monthly reports instead of year end reports with supporting documentation in order to improve financial planning.
- Strict implementation of the credit control policy in terms of disconnections of unpaid services accounts.
- Implementation of an updated valuation roll in the next financial year.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

- Implementation of the Financial Recovery Plan by management.
- Credit Control policy has been reviewed and approved by the Council so that Centlec can be able to assist in the process of recovering the arrear debts through taking a certain percentage from the electricity purchases by the people who owes the Municipality.
- Debtors written off by Council to the amount of R46 million.
- To perform VAT review to see how we can recover from SARS to pay the other outstanding creditors.
- The contract between the Municipality and Centlec is in the process of being finalised to be reviewed so that Centlec can be forced to pay surpluses on a monthly basis.

35. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date however the approval was before the issue of the Audit report:

- During the 2014/2015 July National Treasury off set the unspent conditional grant regarding the Department of Energy Grant (DOE Electricity). This was an event after the balance sheet date, and management decided it is not an adjusting event.

36. Unauthorised expenditure

Opening balance	144 540 368	152 266 239
Budget overspending	41 427 947	54 749 129
Unauthorised expenditure condoned by Council	-	(62 475 000)
	185 968 315	144 540 368

Liabilities have not been determined. Council appointed a committee to investigate and report back to council before the amount can be recovered or condoned.

Overspending of the vote.

No criminal or disciplinary steps were taken as a consequence of above expenditure

37. Fruitless and wasteful expenditure

Opening balance	27 961 429	23 180 836
Fruitless and wasteful expenditure - current year	12 221 241	4 780 593
Condoned by Council	-	-
To be recovered – contingent asset	-	-

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)	2014(R)	2013(R)
Fruitless and wasteful expenditure awaiting condonement	-	-
	40 182 670	27 961 429

Liabilities have not been determined. Council appointed a committee to investigate and report back to council before the amount can be recovered or condoned.

This expenditure is mainly Interest charges due to late payment of the suppliers.

No criminal or disciplinary steps were taken as a consequence of above expenditure.

38. Irregular expenditure

Opening balance	163 301 873	137 770 607
Add: Irregular Expenditure - current year	37 782 366	25 531 266
Less: Irregular Expenditure - condoned by Council	-	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
	201 084 239	163 301 873

Liabilities have not been determined. Council appointed a committee to investigate and report back to council before the amount can be recovered or condoned.

Supply chain policy not adhered to. The adjudication committee not constitute in line with the Supply Chain Management Regulations.

No criminal or disciplinary steps were taken as a consequence of above expenditure.

Included in irregular expenditure are contracts that are still with the SIU for investigation and the municipality do not have a case number.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
39. Additional disclosure in terms of Municipal Finance Management Act			
39.1 Contributions to organised local government – SALGA			
Current year contributions		688 084	682 553
Amount paid - current year		(688 084)	(682 553)
		<u>-</u>	<u>-</u>
39.2 Audit fees			
Opening balance		3 345 269	3 759 611
Current year fee		3 222 310	4 347 917
Amounts paid		(2 913 024)	(4 762 259)
		<u>6 567 579</u>	<u>8 107 528</u>
39.3 PAYE and UIF			
Opening balance		5 526 380	5 547 757
Current year payroll deductions		8 394 362	6 528 013
Penalties and interest		963 499	609 436
Corrections made		-	780 847
Amounts paid		(14 213 899)	(7 939 673)
		<u>14 884 241</u>	<u>13 466 053</u>
39.4 Pension and Medical Aid Deductions			
Opening balance		15 825 204	14 893 339
Current year payroll deductions		21 641 521	12 720 761
Amount paid - previous years		(26 036 035)	(11 788 896)
		<u>37 466 725</u>	<u>27 614 100</u>
39.5 Value added tax (VAT)			
VAT payable		4 919 509	1 272 955
		<u>4 919 509</u>	<u>1 272 955</u>

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

39.6 Councillors' arrear consumer accounts

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

30 June 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total R
--------------	-------------------------------	-------------------------------	---------

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)	
		R	90 days R	
Councillor T.X Matwa		1 296	5 859	7155
Councillor TJ Koyana		2 288	757	3045
Councillor SA Sola		86	8 966	9 052
Councillor LA Rigala		26	7	33
Councillor NC Spochter		118	-	118
Councillor M Matseo		140	-	140
Councillor PD Basholo		13	-	13
Councillor ME Masana		266	536	802
Councillor FN Stuurman		133	-	133
		4 366	16 125	20 491

The arrear account outstanding for more than 90 days for Councillor Sola was not in the name of the councillor but it was for a relative who passed away, therefore the debt was taken over by the councillor and is deductible monthly from his salary. The councillor also made an arrangement to pay back the arrear amount.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

39.7 Distribution losses

39.7(a) Distribution losses (Water)

Number of users -	12 344	12 192
Units bought -	5 221 237	5 347 557
Units sold-	1 704 188	1 484 738
Free basic service (Only Indigents)-	155 448	877 824
Units lost on distribution -	3 361 601	2 984 997
Amount of unit losses -	3 803 378	14 924 984
Units lost in distribution as percentage -	64,38%	55,82%

The high losses are due to old infrastructure network and unmetered areas.

39.7(b) Distribution losses (Electricity)

	kWh	Rand Value	Avg C/kWh
Purchased Units	44 289 973	34 007 831	0,77
Prepaid Sale	22 450 296	25 123 488	1,12
BCX Sales -	15504 194	12 641 929	0,82
kWh Losses	6 335 483	4 897 291	14,30%

The boreholes, dams and reservoirs electricity were not charged to the service provider (Water Supplier), it was included as a departmental, hence the loss.

40. Deviation from supply chain management regulations

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

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

41. Budget differences

Material differences between budget and actual amounts

41.1 Service charges

The municipality over budgeted by 1 % on service charges. This is not significant.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

41.2 Interest income

The interest was higher than budgeted due to non-payment of accounts by debtors. This can be evidenced by the long outstanding consumer debtor accounts.

41.3 Property rates

The actual property rates were less than budgeted due to the correction of incorrect tariffs charged on non-chargeable properties.

41.4 Government Grants and subsidies

41.5 Personnel cost

The underspending is due to the high vacancy rate, most posts not filled due to the negative cash flow.

41.6 Administration cost

41.7 Depreciation

The depreciation was under the budget due improvement in the implementation of the GRAP compliant asset register.

41.8 Finance cost

budgeted

41.9 Debt impairment

The saving in debt impairment was because the municipality re-assessed its debtor's balances based on IAS 39, GRAP 104, IAS 32 and IFRS 7.

41.10 Repairs and maintenance

The saving was because the actual spending was less than budgeted as a result of adverse cash flow position.

41.11 Bulk purchases

41.12 General expenses

The municipality exceeded its general expenditure budget due to the general increase in prices especially of petrol.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

Changes from the approved budget to the final budget

The changes between the approved and final budget are due to the municipality re-assessing its performance for the first half of the year as part of its mid-term budget assessment process. Council therefore resolved to adopt an adjustment budget for the remainder of the financial year.

42. Depreciation and amortisation

Property, plant and equipment

69 031 729 65 272 968

43. Retirement benefit obligations

Defined benefit plan

The plan is a post-employment medical benefit plan.

The post-employment health care liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.

Post-retirement medical aid plan

General description

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Reconciliation of accrued liability

Notes:

- (i) These projections assume that the Municipality's health care arrangements and subsidy policy will remain as outlined in Section 3, and that all the actuarial assumptions made are borne out in practice. In addition, it is assumed that no contributions are made by the Municipality towards prefunding its liability via an off-balance sheet vehicle.
- (ii) Contributions or benefits paid refer to medical scheme contributions made by the Municipality with respect to its subsidy of current continuation members.
- (iii) There are no Past Service Costs, Curtailments or Settlements to reflect.

The Municipality's Accrued Unfunded Liability at 30 June 2013 is estimated at R 6 684 000. The Current-service Cost for the year ending 30 June 2014 is estimated at R6 458 000.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

Financial Assumptions

	Value p.a.
Discount rate	8.94%
CPI (consumer price inflation)	6.33%
Net effective discount rate	0.59%
Medical Aid Contribution rate	8.05%

Discount Rate: GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

“The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Medical Aid Inflation: The medical aid inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate Inflation. We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between current conventional government bond yields (R209) and current index-linked bond yields (R202).

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

The next contribution increase was assumed to occur with effect from 1 January 2015.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

Demographic Assumptions

Average retirement age	63
Continuation of membership at retirement	90%
Proportion assumed married at retirement	90%
Proportion of eligible current non-member employees joining the scheme by retirement	20%
Mortality during employment	SA 85-90
Mortality post-retirement	PA90-1 ultimate

Withdrawal from service (sample annual rates)

<u>Age</u>	<u>Females</u>	<u>Males</u>
20-24	24%	16%
25-29	18%	12%
30-34	15%	10%
35-39	10%	10%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%
60+	0%	0%

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

Pre-retirement Mortality: SA85-90 ultimate table, adjusted for female lives.

Post-retirement Mortality: PA(90) ultimate table, adjusted down by one year of age.

Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Average Retirement Age: The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 60, which then implicitly allows for expected rates of early and ill-health retirement.

Continuation of Membership: It has been assumed that 90% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement. Further, it was assumed that 20% of eligible non-members would join a medical aid scheme by retirement, and thus qualify for the subsidy.

Family Profile (retirees): It has been assumed that 90% of those in-service members who remain on the health care arrangements will be married at retirement. Further, it has been assumed that in-service husbands will be four years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Other Assumptions

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

Management has indicated that there are no long-term assets set aside off-balance sheets in respect of the Municipality's post-employment health care liability.

Sensitivity analysis

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of medical aid inflation;
- (ii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iii) A one-year decrease in the assumed average retirement age; and
- (iv) A 50% reduction in the assumed withdrawal rates

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

It indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 20% higher than that shown.

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(6 684 000)	(6 192 000)
Net actuarial gains or losses not recognised	333 000	(413 000)
Current service cost not recognised	(57 000)	(49 000)
Interest cost	(512 000)	(476 000)
Benefits paid	462 000	446 000
	<u>(6 458 000)</u>	<u>(6 684 000)</u>
Current assets	-	-
Non-current liabilities	(6 458 000)	(6 684 000)
	<u>(6 458 000)</u>	<u>(6 684 000)</u>

Net present value of the post-retirement medical aid plan defined benefit obligation for the past four years was as follows:

Description	Defined Benefit obligation as at 30 June 2015	Defined Benefit obligation as at 30 June 2014	Defined Benefit obligation as at 30 June 2013	Defined Benefit obligation as at 30 June 2012	Defined Benefit obligation as at 30 June 2011
Net present value of the post-retirement medical aid plan defined benefit obligation	6 575 000,00	6 458 000,00	6 684 000,00	6 192 000,00	5 393 000,00

44. Operating Leases

Rental of offices

i) not later than one year;	13 310	66 550
(ii) later than one year and not later than five years; and	-	13 310

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

13 310 79 860

Kopanong Local Municipality entered into a lease contract with Mr and Mrs AP and A Voster for rental of office building. The lease term is for three years ending 31 August 2014. Lease payments escalate with the 10% interests.

Rental of offices/ Xhariep District

i) not later than one year;	372 240	-
(ii) later than one year and not later than five years; and	409 464	-
	781 704	-

Kopanong Local Municipality entered into a lease contract with Xhariep District Municipality for rental of office building. The lease term is for a period of 3 years which started on 01 July 2013 to 30 June 2016. Rental payments on straight line basis. Rent escalates by 10 % per annum depending on council or management decisions.

Nashua operating Leases (3G)

i) not later than one year;	81 730	96 468
(ii) later than one year and not later than five years; and	-	81 730
	81 730	178 198

The Municipality entered into agreement with Nashua, where Nashua furnish municipal officials with 3G and monthly allocation of data depending on the need by the respective official. Individual contract vary with data allocated to a 3G and thus the monthly payments. The term of each contract is 24 month which commence from the date of activation of each SIM card, however the Municipality can extend the period of the contract if deemed necessary

45. Other revenue

Fees earned	502 393	-
Rental income - third party	743 228	895 762
Sundry income	6 204 570	454 221
Cleaning of erven	506	-
VAT from Capital Grants	5 225 198	-
Departmental water and sewerage	33 681	-
	12 709 576	1 349 983

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

46. Financial instruments

46.1.1

Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
Receivables from Exchange Transactions		2014 (R)	2013 (R)
Electricity	Amortised cost	6 621 070	10 595 272
Housing rental	Amortised cost	473 182	637 317
Refuse	Amortised cost	2 248 066	217 858
Sewerage	Amortised cost	3 310 875	314 547
Water	Amortised cost	3 135 457	1 334 670
Sundry Debtors	Amortised cost	1 093 695	2 516 654
Other receivables from exchange transactions	Amortised cost	9 813 872	230 669
Receivables from Non-exchange Transactions			
Rates Debtors	Amortised cost	3 050 419	3 028 934
Unpaid Conditional Grant	Amortised cost	-	2 745 264
Cash and Cash Equivalents			
Notice Deposits	Amortised cost	4 030 154	301 102
Bank Balances	Amortised cost	117 363	722 290
Cash Floats and Advances	Amortised cost	30 084	30 084
		<u>33 924 237</u>	<u>22 674 661</u>

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Financial Assets at Amortised Cost:			
Receivables from Exchange Transactions	Electricity	6 621 070	10 595 272
Receivables from Exchange Transactions	Housing rental	473 182	637 317
Receivables from Exchange Transactions	Refuse	2 248 066	217 858
Receivables from Exchange Transactions	Sewerage	3 310 875	314 547
Receivables from Exchange Transactions	Water	3 135 457	1 334 670
Receivables from Exchange Transactions	Sundry Debtors	1 093 695	2 516 654
Receivables from Exchange Transactions	Other receivables from exchange transactions	9 813 872	230 669
Receivables from Non-exchange Transactions	Rates Debtors	3 050 419	3 028 934
Receivables from Non-exchange Transactions	Unpaid Conditional Grant	-	2 745 264
Cash and Cash Equivalents	Notice Deposits	4 030 154	301 102
Cash and Cash Equivalents	Bank Balances	117 363	722 290
Cash and Cash Equivalents	Cash Floats and Advances	30 084	30 084
Total Financial Assets		33 924 237	22 674 661

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

Financial Liabilities Classification

Long-term Liabilities

Long-term borrowing	Amortised cost	1 629 219	1 841 384
Retirement benefit obligation	Amortised cost	6 458 000	6 684 000
Non-current Provisions	Amortised cost	18 736 807	17 281 835

Payables

Trade and other payables from exchange transactions	Amortised cost	108 113 117	83 207 798
Payments received in advance	Amortised cost	7 516 191	7 355 952
Unallocated deposits	Amortised cost	263 956	1 492 428
VAT payable	Amortised cost	4 919 509	1 272 955
Consumer Deposits	Amortised cost	2 432 378	2 139 832

Bank Overdraft

Bank Overdraft	Amortised cost	469,909	-
----------------	----------------	---------	---

Current Portion of Long-term Liabilities

Current portion of long-term borrowing	Amortised cost	212 166	232 201
Current portion of Unspent conditional grants and receipts	Amortised cost	7 248 340	3 104 381
Current portion of Provisions	Amortised cost	640 351	415 911
		158 639 943	159 431 756

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Long-term Liabilities	Long-term borrowing	1 629 219	1 841 384
Long-term Liabilities	Retirement benefit obligation	6 458 000	6 684 000
Long-term Liabilities	Non-current portion of Provisions	18 736 807	17 281 835
Payables	Trade and other payables from exchange transactions	108 113 117	83 207 798
Payables	Payments received in advance	7 516 191	7 355 952
Payables	Unallocated deposits	263 956	1 492 428
Payables	VAT payable	4 919 509	1 272 955
Payables	Consumer Deposits	2 432 378	2 139 832
Bank Overdraft	Bank Overdraft	469 909	-
Current Portion of Long-term Liabilities	Current portion of long-term borrowing	212 166	232 201
Current Portion of Long-term Liabilities	Current portion of Unspent conditional grants and receipts	7 248 340	3 104 381
Current Portion of Long-term Liabilities	Current portion of Provisions	640 351	415 911
Total Financial Liabilities		158 639 943	125 028 677

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

46.1.2 Financial Assets

Pledged as security

The investments consisted out of call accounts and a 32 day account, therefore it was not listed. None of the investments were pledged for security. The market value was supported by bank statements, therefore no council valuation was necessary.

46.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash and Short-term Investments

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the the current payment ratio's of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2013, as a result of the short-term maturity of these assets and liabilities.

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Descriptions	30 June 2014 Carrying Amount (R')	Fair Value (R')	30 June 2013 Carrying Amount (R')	Fair Value (R')
FINANCIAL ASSETS				
Measured at				
Amortised Cost:				
Receivables from				
Exchange				
Transactions				
	26 696 217	26 696 217	15 846 987	15 846 987
Electricity	6 621 070	6 621 070	10 595 272	10 595 272
Housing rental	473 182	473 182	637 317	637 317
Refuse	2 248 066	2 248 066	217 858	217 858
Sewerage	3 310 875	3 310 875	314 547	314 547
Water	3 135 457	3 135 457	1 334 670	1 334 670
Sundry Debtors	1 093 695	1 093 695	2 516 654	2 516 654
Other receivables from exchange transactions	9 813 872	9 813 872	230 669	230 669
Receivables from				
Non-exchange				
Transactions				
	3 050 419	3 050 419	5 774 198	5 774 198
Rates Debtors	3 050 419	3 050 419	3 028 934	3 028 934
Unpaid Conditional Grant	-	-	2 745 264	2 745 264
Cash and Cash				
Equivalents	4 177 601	4 177 601	1 053 476	1 053 476
Notice Deposits	4 030 154	4 030 154	301 102	301 102
Bank Balances				

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)		
		117 363	117 363		
Cash Floats and Advances		30 084	30 084		
Total Financial Assets		33 924 237	33 924 237		
		722 290	722 290		
		30 084	30 084		
		22 674 661	22 674 661		
FINANCIAL LIABILITIES					
Measured at Amortised Cost:					
Long-term Liabilities		8 087 219	8 087 219	8 525 384	8 525 384
Long-term borrowing		1 629 219	1 629 219	1 841 384	1 841 384
Retirement benefit obligation		6 458 000	6 458 000	6 684 000	6 684 000
Payables		123 245 151	123 245 151	95 468 965	95 468 965
Trade and other payables from exchange transactions		108 113 117	108 113 117	83 207 798	83 207 798
Payments received in advance		7 516 191	7 516 191	7 355 952	7 355 952
Unallocated deposits		263 956	263 956	1 492 428	1 492 428
VAT payable		4 919 509	4 919 509	1 272 955	1 272 955
Consumer Deposits		2 432 378	2 432 378	2 139 832	2 139 832
Bank Overdraft		469 909	469 909	-	-
Bank Overdraft		469 909	469 909	-	-
Total Financial Liabilities		131 802 279	131 802 279	103 994 349	103 994 349
Total Financial Instruments		(97 878 042)	(97 878 042)	(81 319 688)	(81 319 688)
Unrecognised Gain / (Loss)			-		-

No Financial Instruments of the municipality have been reclassified during the year.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Class is one level lower than category.

	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Financial Instruments at Fair Value:		26 696 217	-	26 696 217
Electricity	-	6 621 070	-	6 621 070
Housing rental	-	473 182	-	473 182
Refuse	-	2 248 066	-	2 248 066
Sewerage	-	3 310 875	-	3 310 875
Water	-	3 135 457	-	3 135 457
Sundry Debtors	-	1 093 695	-	1 093 695
Other receivables				

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)	
from exchange transactions	-	9 813 872	9 813 872	
Receivables from Non-exchange Transactions		3 050 419	3 050 419	
	Level 1	Level 2	Level 3	Total
Rates Debtors	-	3 050 419	-	3 050 419
Cash and Cash Equivalents	-	4 177 601	-	4 177 601
Notice Deposits	-	4 030 154	-	4 030 154
Bank Balances	-	117 363	-	117 363
Cash Floats and Advances	-	30 084	-	30 084
Total Financial Assets	-	33 924 237	-	33 924 237
Long-term Liabilities	-	8 087 219	-	8 087 219
Long-term borrowing	-	1 629 219	-	1 629 219
Retirement benefit obligation	-	6 458 000	-	6 458 000
Payables		115 465 004	-	115 465 004
Trade and other payables from exchange transactions	-	108 113 117	-	108 113 117
VAT payable	-	4 919 509	-	4 919 509
Consumer Deposits	-	2 432 378	-	2 432 378
Bank Overdraft				
Bank Overdraft	-	469 909	-	469 909
Total Financial				

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

	Note(s)	2014(R)	2013(R)
Liabilities	-	124 022 132	124 022 132
Total Financial Instruments	-	(90 097 895)	(90 097 895)

46.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2010/2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 13, Cash and Cash Equivalents and Equity and Accumulated Surplus as disclosed in the Statement of Changes in Net Assets.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Accumulated Surplus as disclosed in the Statement of Changes in Net Assets.

Gearing Ratio

The debt-to-equity ratio, is reflected at 3,57%, increasing with 1,24%. This low ratio is as a result of the Municipality not entering in a large number of Loans and making full use of Government Grants received.

The municipality's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The municipality has a target gearing ratio of 20-25% determined as the proportion of net debt to equity. Based on the committee's recommendations, the municipality expects to increase its gearing ratio closer to 25% through the issue of new debt.

The gearing ratio at the year-end was as follows:

	2014 (R)	2013 (R)
Debtors	29 746 638	21 621 185
Cash and Cash Equivalents	4 177 601	1 053 476
Net Debt	33 924 237	22 674 661
Equity	949 778 564	1 005 249 275
Net debt to equity ratio	3,57%	2,26%

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 13

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

Debt is defined as Long- and Short-term Liabilities.

46.4 Financial Risk Management Objectives

Many audit queries have been raised in the past on the incomplete disclosure of Financial Instruments.

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The municipality seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the municipality's policies approved by the Council, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipality does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

The Corporate Treasury function reports quarterly to the municipality's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

46.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
 - Liquidity Risk;
- and
- Market Risk.

46.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 46.6 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

46.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

46.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial Assets and Liabilities that are sensitive to interest rate risk are investments and loan payables. The municipality is exposed to interest rate risk on these financial instruments as the rates applicable are floating interest rates.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, other debtors, bank and cash balances.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the councillor responsible for financial matters.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s) 2014(R) 2013(R)

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

46.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the municipality uses other publicly available financial information and its own trading records to rate its major customers. The municipality's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, other debtors, bank and cash balances.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

Refer to <http://www.fidfund.co.za/banking-options/bank-credit-ratings/> for the most updated ratings.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Note(s)

2014(R)

2013(R)

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited creditrating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with it's investment policy. Consequently, the municipality is not exposed to any significant credit risk.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments Budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	(R)	(R)	(R)	(R)	(R)	

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Sale of goods	100 267	-	100 267	2 877 059	2 776 792	
Service charges	82 838 807	-	82 838 807	101 900 159	19 061 352	41
Rental of facilities and equipment	146 346	-	146 346	293 203	146 857	
Membership fees	452	-	452	-	(452)	
Fees earned	172 284	-	172 284	502 393	330 109	
Rental income	1 061 509	-	1 061 509	743 228	(318 281)	
Sundry income	8 913 815	-	8 913 815	11 796 955	2 883 140	41
Interest	6 120 929	-	6 120 929	4 520 899	(1 600 030)	41
Total revenue from exchange transactions	99 354 409	-	99 354 409	122 633 896	23 279 487	

Revenue from non-exchange transactions

Taxation revenue

Property rates	16 535 387	(5 410 548)	11 124 839	11 392 537	267 698	41
Government grants & subsidies	92 086 000	-	92 086 000	132 271 333	40 185 333	41

Transfer revenue

Fines	131 692	-	131 692	97 505	(34 187)	
-------	---------	---	----------------	--------	-----------------	--

Total revenue from non-exchange transactions

	108 753 079	(5 410 548)	103 342 531	143 761 375	40 418 844	
<i>Total revenue from exchange transactions</i>	<i>99 354 409</i>	<i>-</i>	<i>99 354 409</i>	<i>122 633 896</i>	<i>23 279 487</i>	
Total revenue from non-exchange transactions	108 753 079	(5 410 548)	103 342 531	143 761 375	40 418 844	
Total revenue	208 107 488	(5 410 548)	202 696 940	266 395 271	63 698 331	

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Expenditure						
Personnel	(76 214 324)	93 962	(76 120 362)	(83 475 183)	(7 354 821)	41
Remuneration of councillors	(4 320 400)	-	(4 320 400)	(3 491 728)	828 672	
Administration	(918 700)	-	(918 700)	(193 596)	725 104	41
Depreciation and amortisation	(42 311 959)	(35 419 135)	(77 731 094)	(69 031 729)	8 699 365	41
Finance costs	(207 359)	-	(207 359)	(10 407 132)	(10 199 773)	41
Debt impairment	(15 617 270)	-	(15 617 270)	(8 694 614)	6 922 656	41
Repairs and maintenance	(10 529 119)	4 416 718	(6 112 401)	(4 910 977)	1 201 424	41
Bulk purchases	(52 825 720)	-	(52 825 720)	(39 613 078)	13 212 642	41
General Expenses	(47 393 597)	808 868	(46 584 729)	(102 047 945)	(55 463 216)	41
Total expenditure	(250 338 448)	(30 099 587)	(280 438 035)	(321 865 982)	(41 427 947)	
Operating deficit	(42 230 960)	(35 510 135)	(77 741 095)	(55 470 711)	22 270 384	
Fair value adjustments	(106 000)	-	(106 000)	-	(106 000)	

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance as at 30 June 2014

	Note(s)	2014(R)	2013(R)
Revenue			
Revenue from non-exchange transactions			
Property rates	22	11 392 537	9 856 534
Government grants & subsidies	21	131 128 741	142 080 775
Fines		97 505	244 676
Treasury financial assistance		1 142 592	-
Revenue from exchange transactions			
Sale of goods		2 877 059	1 841 210
Rendering of services	23	101 900 159	68 489 944
Rental of facilities and equipment		293 203	283 243
		248 831 796	222 796 382
Other income			
Fees earned		502 393	-
Rental income		743 228	895 762
Sundry income	45	6 204 570	454 221
Cleaning of erven		506	-
VAT from Capital Grants		5 225 198	-
Departmental water and sewerage		33 681	-
Interest received	17	4 520 899	6 512 616
Actuarial gain	24	333 000	-
		17 563 475	7 862 599
Operating expenses			
Administration and management fees		193 596	5 062 668
Advertising		210 998	198 007
Assets expensed		981 926	374 795
Audit fees		3 222 311	4 347 917
Accounting fees		1 164 631	554 645
Bad debts	26	10 305 590	13 313 175
Bank charges		500 561	397 400
Bulk purchases	25	65 230 004	55 549 222
Chemicals		21 169	944 556
Cleaning		40 179	453 213
Commission vendors		238 171	1 530 507
Community development and training		-	428 866
Congress and delegation		498 334	237 888
Contracted services		70 521	-
Consumables		662	120
Depreciation, amortisation and impairments	42	69 031 729	65 272 968
Employee costs	27	83 475 183	79 326 204
Remuneration of Councillors	29	3 491 728	3 494 534
Farming land		5 071	5 655

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance as at 30 June 2014

	Note(s)	2014(R)	2013(R)
Garden fees		449	-
Entertainment		168 615	174 132
Insurance		497 500	504 356
Rental expenses		1 372 859	675 833
Legal expenses		892 014	817 210
Medical examinations		2 797	2 740
Material and tools		8 145	3 542
Other expenses		17 469 803	17 600 719
Petrol and oil		1 476 954	1 579 154
Postage and stamps		2 978	10 041
Printing and stationery		783 087	425 152
Protective clothing		34 367	100 478
Repairs and maintenance		5 036 826	7 022 470
Royalties and license fees		97 465	83 389
Software expenses		860 051	98 874
Subscriptions		708 784	459 675
Telephone and fax		1 267 051	1 627 531
Training		284 376	68 234
Performance Management System		1 303 688	1 852 042
Subsistence and travelling		1 483 882	1 546 325
Valuation cost and unbundling of assets		2 003 728	1 587 564
Ward committees		360 178	373 906
Departmental electricity		34 307 110	7 319 251
Water		2 819	4 726
Subsidised services		2 350 960	2 225 694
		311 458 850	277 655 378
Operating deficit		(45 063 579)	(46 996 397)
Finance costs	18	(10 407 132)	(5 888 461)
Deficit for the year		(55 470 711)	(52 884 858)

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Note(s) 2014(R) 2013(R)

Assets

Current Assets

Inventories	3	190 471	360 068
Other receivables from exchange transactions	5	9 813 872	230 669
Receivables from non-exchange transactions	4	3 050 419	3 028 934
Trade Receivables from exchange transactions	4	16 882 345	15 616 318
Cash and cash equivalents	6	147 447	752 374
Investments	7	4 030 154	301 102
Unpaid Conditional Grant	8	-	2 745 264
		34 114 708	23 034 729

Non-Current Assets

Property, plant and equipment	9	1 082 920 392	1 114 801 688
-------------------------------	---	---------------	---------------

Non-Current Assets

		1 082 920 392	1 114 801 688
--	--	---------------	---------------

Current Assets

		34 114 708	23 034 729
--	--	------------	------------

Total Assets

		1 117 035 100	1 137 836 417
--	--	----------------------	----------------------

Liabilities

Current Liabilities

Current portion of long-term borrowing	13	212 166	232 201
Trade and other payables from exchange transactions	12	124 509 857	99 614 643
VAT payable	15	4 919 509	1 272 955
Consumer deposits	10	2 432 378	2 139 832
Current portion of Unspent conditional grants and receipts	14	7 248 340	3 104 381
Bank overdraft	6	469 909	-
Current portion of Provisions	11	640 351	415 911

140 432 510 **106 779 923**

Non-Current Liabilities

Long-term borrowing	13	1 629 219	1 841 384
Retirement benefit obligation	43	6 458 000	6 684 000
Non-Current portion of Provisions	11	18 736 807	17 281 835

26 824 026 **25 807 219**

Non-Current Liabilities

		26 824 026	25 807 219
--	--	------------	------------

Current Liabilities

		140 432 510	106 779 923
--	--	-------------	-------------

Total Liabilities

		167 256 536	132 587 142
--	--	--------------------	--------------------

Assets

		1 117 035 100	1 137 836 417
--	--	---------------	---------------

Liabilities

		(167 256 536)	(132 587 142)
--	--	---------------	---------------

Net Assets

		949 778 564	1 005 249 275
--	--	--------------------	----------------------

Net Assets

Accumulated surplus		949 778 564	1 005 249 275
---------------------	--	-------------	---------------

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

The financial statements have been prepared in accordance with Statements of Generally Accepted Municipal 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.

Management did make an assessment of the municipality's ability to continue as a going concern when the annual financial statements were compiled.

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

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

The financial statements set out on pages 5 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31st August 2014.



L.Y. Moletsane (Ms.)
Municipal Manager