CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality
Financial statements
for the financial year ended 30 June 2014

General Information

Nature of business and principal activities	Chris Hani District Municipality is a South African Category C Municipality (District Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) The municipality's operations are governed by: - Municipal Finance Management act 56 of 2003 - Municipal Structure Act 117 of 1998 - Municipal Systems Act 32 of 2000 and various other acts and regulations
Mayoral committee	
Executive Mayor	M.C. Koyo
Portfolio Heads	N.G. Xoseni: Speaker
	W.T. Bikwana: Chief Whip
	L. Nkwentsha - Gunuza : Integrated Planning and Econimic Development
	N. Matiwane : Health and Community Services
	S.D. Plata : Finance
	Z.R. Shweni : Corporate Services
	M. Nontsele : SPU & HIV & AIDS Co-Ordinating Committee
	M.R. Xuma : Technical Services
Councillors	V.A. Bovuka
	M.N. Bula
	Z.C. Deliwe
	S.R.Dyanti
	F. Erasmus
	W. Gela
	N. Goniwe
	M. Jentile
	L. Jiyose
	D. Kalolo
	T. Kulashe
	S.Liwani
	K. Mdleleni
	Z. Madyolo
	N.G. Magwashu
	N. Makanda
	P.P. Mandile
	S. Mbolo
	A.Z. Mdwayingana
	S. Myataza
	N.S. Ndlebe
	H. Nobongoza
	L.E. Noqha
	K. Nqiqhi
	N.P. Nquma
	S. Ntakana
	N. Klaas
	N. Nyukwana
	M. Qamngwana
	N. Radzilani
	N. Roskruge
	R.W. Venske

General Information

	K. Vimbayo
Grading of local authority	Grade 4
Accounting Officer	M A Mene
Registered office	15 Bells Road Queenstown 5319
Postal address	Private Bag X7121 Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor General South Africa

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

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Financial Reporting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting 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 Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the 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 accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The financial statements set out on pages 5 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

Accounting Officer
Municipal Manager

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	10	1,622,688	873,228
Investments	6	129,043,449	116,732,579
Receivables from non-exchange transactions	11	50,482,625	190,956,767
VAT receivable	12	26,685,825	49,028,726
Prepayments	9	25,236,190	27,066,214
Cash and cash equivalents	13	251,333,364	191,648,293
		484,404,141	**576,305,807**
Non-Current Assets			
Property, plant and equipment	3	3,277,151,639	2,885,666,855
Intangible assets	4	915,282	1,366,256
Non- current Investments	5	1,500,000	1,500,000
		3,279,566,921	**2,888,533,111**
Total Assets		**3,763,971,062**	**3,464,838,918**
Liabilities			
Current Liabilities			
Operating lease liability	7	43,714	46,614
Payables from exchange transactions	18	122,083,533	196,613,442
Employee benefit obligation	8&16&17	6,759,070	4,949,971
Unspent conditional grants and receipts	15	42,770,843	53,716,712
Bank overdraft	13	17,619,856	-
		189,277,016	**255,326,739**
Non-Current Liabilities			
Employee benefit obligation	8	32,878,000	33,405,000
Total Liabilities		**222,155,016**	**288,731,739**
Net Assets		**3,541,816,046**	**3,176,107,179**
Net Assets			
Accumulated surplus	14	3,541,816,046	3,176,107,179

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment	33	39,000	94,250
Other income	22	15,458,837	12,231,300
Interest received - investment	28	25,983,684	19,049,242
Total revenue from exchange transactions		**41,481,521**	**31,374,792**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	1,037,992,532	974,677,251
Total revenue	20	**1,079,474,053**	**1,006,052,043**
Expenditure			
Personnel	25	(134,214,848)	(122,565,456)
Remuneration of councillors	26	(7,331,478)	(7,918,180)
Depreciation and amortisation	30	(91,602,438)	(91,296,898)
Finance costs	31	(125,808)	(868,229)
Debt impairment	27	1,087,461	(2,368,138)
Repairs and maintenance		(2,474,248)	(1,746,150)
Bulk purchases	36	(13,322,406)	(13,174,780)
Contracted services	34	(9,197,339)	(1,028,202)
Grants and subsidies paid	35	(405,923,849)	(529,242,560)
General Expenses	23	(55,185,984)	(45,221,007)
Total expenditure		**(718,290,937)**	**(815,429,600)**
Operating surplus	24	**361,183,116**	**190,622,443**
Loss on disposal of assets and liabilities		(1,135,510)	-
Fair value adjustments	29	6,025,400	6,331,232
		4,889,890	**6,331,232**
Surplus for the year		**366,073,006**	**196,953,675**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2,958,069,131	2,958,069,131
Adjustments		
Prior year adjustments	28,729,553	28,729,553
Balance at 01 July 2012 as restated*	**2,986,798,684**	**2,986,798,684**
Changes in net assets		
Surplus for the year	197,080,243	197,080,243
Fair value adjustments to Property, Plant and Equipment	(6,331,000)	(6,331,000)
Total changes	190,749,243	190,749,243
Balance at 01 July 2013 as previously reported	3,177,547,927	3,177,547,927
Adjustments		
Prior year adjustments	(1,804,887)	(1,804,887)
Balance at 01 July 2013 as restated*	**3,175,743,040**	**3,175,743,040**
Changes in net assets		
Surplus for the year	366,073,006	366,073,006
Total changes	366,073,006	366,073,006
Balance at 30 June 2014	**3,541,816,046**	**3,541,816,046**
Note(s)		

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Rendering of services		32,450,684	208,544,113
Grants		1,027,046,663	960,056,290
Interest income		25,983,684	19,049,242
		1,085,481,031	1,187,649,645
Payments			
Employee costs		(141,546,326)	(130,483,636)
Suppliers		(558,274,337)	(630,413,406)
Finance costs		(125,808)	(868,229)
		(699,946,471)	(761,765,271)
Net cash flows from operating activities	37	**385,534,560**	**425,884,374**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(330,964,991)	(409,903,837)
Purchase of other intangible assets	4	(193,484)	-
Movements in investments		(12,310,870)	(49,002,932)
Net cash flows from investing activities		**(343,469,345)**	**(458,906,769)**
Cash flows from financing activities			
Repayment of long term liabilities		-	(5,553,707)
Net cash flows from financing activities		**-**	**(5,553,707)**
Net increase/(decrease) in cash and cash equivalents		**42,065,215**	**(38,576,102)**
Cash and cash equivalents at the beginning of the year		191,648,293	230,224,396
Cash and cash equivalents at the end of the year	13	**233,713,508**	**191,648,294**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	322,000,000	-	**322,000,000**	-	**(322,000,000)**	1
Rental of facilities and equipment	-	-	**-**	39,000	**39,000**	2
Other income	455,000	-	**455,000**	15,458,837	**15,003,837**	3
Interest received - investment	16,998,850	-	**16,998,850**	25,983,684	**8,984,834**	4
Total revenue from exchange transactions	**339,453,850**	**-**	**339,453,850**	**41,481,521**	**(297,972,329)**	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants & subsidies	982,886,453	23,614,550	**1,006,501,003**	1,037,992,532	**31,491,529**	5
Total revenue	**1,322,340,303**	**23,614,550**	**1,345,954,853**	**1,079,474,053**	**(266,480,800)**	
Expenditure						
Personnel	(217,454,263)	45,207,968	**(172,246,295)**	(134,214,848)	**38,031,447**	6
Remuneration of councillors	(7,811,626)	(168,588)	**(7,980,214)**	(7,331,478)	**648,736**	7
Depreciation and amortisation	(90,000,000)	-	**(90,000,000)**	(91,602,438)	**(1,602,438)**	8
Finance costs	-	-	**-**	(125,808)	**(125,808)**	9
Debt impairment	-	-	**-**	1,087,461	**1,087,461**	10
Repairs and maintenance	(9,470,238)	(1,429,111)	**(10,899,349)**	(2,474,248)	**8,425,101**	11
Bulk purchases	(10,152,996)	-	**(10,152,996)**	(13,322,406)	**(3,169,410)**	12
Contracted Services	(17,335,100)	3,000,000	**(14,335,100)**	(9,197,339)	**5,137,761**	13
Grants and subsidies paid	(149,710,240)	-	**(149,710,240)**	(405,923,849)	**(256,213,609)**	14
General Expenses	(285,899,852)	(69,159,785)	**(355,059,637)**	(55,185,984)	**299,873,653**	15
Total expenditure	**(787,834,315)**	**(22,549,516)**	**(810,383,831)**	**(718,290,937)**	**92,092,894**	
Operating surplus	**534,505,988**	**1,065,034**	**535,571,022**	**361,183,116**	**(174,387,906)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1,135,510)	**(1,135,510)**	
Fair value adjustments	-	-	**-**	6,025,400	**6,025,400**	
	-	**-**	**-**	**4,889,890**	**4,889,890**	
Surplus before taxation	**534,505,988**	**1,065,034**	**535,571,022**	**366,073,006**	**(169,498,016)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**534,505,988**	**1,065,034**	**535,571,022**	**366,073,006**	**(169,498,016)**	

Explanation of variances per note 49.

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

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

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.

1.3 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.

1.3 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	**Average useful life**
Buildings	
• Improvements	5 - 30 years
Plant and Equipment	2 - 15 years
Furniture and fixtures	3 - 15 years
Motor vehicles	4 - 15 years
Office equipment	3 - 15 years
IT equipment	3 - 10 years

1.3 Property, plant and equipment (continued)

Infrastructure	
• Roads and Paving	3 - 100 years
• Security measures	7 - 25 years
• Sewerage	7 - 60 years
• Water	5 - 100 years
Community	
• Community facilities	5 - 30 years
• Recreational facilities	10 - 30 years
Emergency equipment	3 - 10 years
Bins and containers	5 - 15 years
Specialised vehicles	10 - 15 years

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

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

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

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

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

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

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

1.4 Intangible assets

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

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

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

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

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

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

1.4 Intangible assets (continued)

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Licenses	2 - 5 years
Computer software, other	2 - 5 years

Intangible assets are derecognised:

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

1.5 Investments in associates

An investment in an associate is carried at cost less any accumulated impairment.
An associate is an entity over which the Municipality is in a position to exercise significant influence, through participation in the financialand operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the municipality’s separate annual financial statements using the equity method of accounting. The carrying value of the investment in associates is adjusted for the municipality’s share of operating surpluses/(deficits) less any dividends received.
Where the Municipality or its Municipal Entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Municipality’s or its Municipal Entities’ interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.
Where the Municipality is no longer able to exercise significant influence over the associate the equity method of accounting is discontinued.
The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.6 Financial instruments

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

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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.

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

1.6 Financial instruments (continued)

Classification

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

Class	Category
Long term receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Cash and cash equivalents	Financial asset measured at fair value

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

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

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.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Accounting Policies

1.6 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial 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.

1.6 Financial instruments (continued)

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

Presentation

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

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.

1.7 Leases

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

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

Finance leases - lessor

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.8 Inventories

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

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

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

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

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

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

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

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

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

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

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

1.9 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.11 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

1.12 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

Other post retirement obligations

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

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

1.13 Provisions and contingencies

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

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

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

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

1.13 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

1.13 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

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

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

1.14 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.

1.14 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.15 Revenue from non-exchange transactions

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

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

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

1.15 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.15 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.16 Investment income

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

1.17 Borrowing costs

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

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial 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.

1.21 Irregular expenditure

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

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

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

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

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

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

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.

1.22 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.

1.23 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution (Number … dated…..) A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.23 Internal reserves (continued)

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

Donations and public contributions reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.24 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.

1.25 Conditional grants and receipts

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

1.26 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.

The approved budget is prepared on a cash basis and presented by programmes linked to performance outcome objectives.

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

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.

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

Accounting Policies

1.26 Budget information (continued)

Comparative information is not required.

1.27 Related parties

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

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

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

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

1.28 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the South African Revenue Services is included as part of receivables or payables in the Statement of Financial Position.

1.29 Capital Commitments

The capital commitments disclosed in the financial statements of the municipality represents the contractual balance committed to capital projects on reporting date which will be incurred in periods subsequent to the reporting date.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 105: Transfers of functions between entities under common control

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

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

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

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

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

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

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

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

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

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

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

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

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

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

The standard prescribes recognition and measurement for:

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

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

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

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

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

The impact of the standard is set out in note Changes in Accounting Policy.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

GRAP 107: Mergers

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

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

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

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

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

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

The standard elaborates on the definitions and identification of:

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

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

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

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

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

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

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

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

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

All amendments to be applied retrospectively.

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

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

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

Amendments were made to Changes in Accounting Policies.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

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

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

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 12 (as revised 2012): Inventories

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

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 13 (as revised 2012): Leases

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

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is set out in note Changes in Accounting Policy.

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

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

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

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

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

All amendments to be applied prospectively.

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

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

The impact of the amendment is set out in note Changes in Accounting Policy.

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

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

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

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

All amendments to be applied retrospectively.

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

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

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

IGRAP16: Intangible assets website costs

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and

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

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

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP32: Service Concession Arrangements: Grantor

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 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 18: Segment Reporting	01 April 2016	Not applicable

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	57,855,600	(4,402,722)	53,452,878	56,655,600	(3,397,130)	53,258,470
Infrastructure	2,396,729,019	(402,067,239)	1,994,661,780	2,325,586,124	(318,381,361)	2,007,204,763
Other property, plant and equipment	74,980,563	(19,929,811)	55,050,752	68,583,577	(15,117,946)	53,465,631
Work in progress	1,173,986,229	-	1,173,986,229	771,737,991	-	771,737,991
Total	**3,703,551,411**	**(426,399,772)**	**3,277,151,639**	**3,222,563,292**	**(336,896,437)**	**2,885,666,855**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals (cost)	Disposals (accumulated depreciation)	Fair value assets - cost as at 01 July 2013	Depreciation	Total
Land and Buildings	53,258,470	1,200,000	-	-	-	(1,005,592)	53,452,878
Infrastructure	2,007,204,763	71,142,895	-	-	-	(83,685,878)	1,994,661,780
Other property, plant and equipment	53,465,631	3,325,515	(2,953,929)	1,818,419	6,025,400	(6,630,284)	55,050,752
Work in progress	771,737,991	402,248,238	-	-	-	-	1,173,986,229
	2,885,666,855	**477,916,648**	**(2,953,929)**	**1,818,419**	**6,025,400**	**(91,321,754)**	**3,277,151,639**

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Fair value assets - cost as at 01 July 2012	Depreciation	Total
Land and Buildings	53,970,294	-	-	(711,824)	53,258,470
Infrastructure	2,049,034,757	40,211,521	-	(82,041,515)	2,007,204,763
Other property, plant and equipment	53,951,020	1,463,062	6,331,231	(8,279,682)	53,465,631
Work in progress	587,718,772	184,019,219	-	-	771,737,991
	2,744,674,843	**225,693,802**	**6,331,231**	**(91,033,021)**	**2,885,666,855**

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

The municipality applies the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets to assess whether items of Property, Plant and Equipment are impaired through a review of the carrying amounts of assets against the recoverable amounts for each asset. At 30 June 2014, no assets were assessed to be impaired.

4. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,452,611	(2,537,329)	915,282	3,258,763	(1,892,507)	1,366,256

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,366,256	193,848	(644,822)	915,282

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software, other	1,630,134	(263,878)	1,366,256

5. Non- current Investments

Name of company	Held by	% holding 2014	% holding 2013	Carrying amount 2014	Carrying amount 2013
Chris Hani Development Agency	Chris Hani District Municipality	100.00 %	100.00 %	1,500,000	1,500,000

The carrying amounts of controlled entities are shown net of impairment losses.

Chris Hani Development Agency

The district municipality has a 100% shareholding in Chris Hani Development Agency. The purpose of the municipal entity is to carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District.

The municipal entity was fully operational during the financial year and all contributions made by the district municipality were treated as Grants and Subsidies paid. Refer to note 35

As at 30 June 2014, the non-current investment was considered not to be impaired and a provision was therefore not accounted for.

Notes to the Financial Statements

Figures in Rand	2014	2013

6. Investments

Designated at fair value		
Investments	129,043,449	116,732,579
Investments are made up of short term deposits held for unspent conditional grants that are ringfenced until the conditions are met and utiliseds		
Current assets		
Designated at fair value	129,043,449	116,732,579

Summary of Investment accounts:

Account number/Description	30 June 2014	30 June 2013
FNB - 62190652521	53,599,339	21,873,578
FNB - 62187939784	44,008,048	18,073,921
FNB - 62187936532	4,751,855	17,623,345
FNB - 62187938538	1,309,762	5,896,766
ABSA - 2073332044	-	23,000,000
Investec - 457476451	25,374,445	30,228,132
Standard Bank - 388507373001	-	36,837
	129,043,449	**116,732,579**

7. Operating lease liabilities/payables

Operating Leases are recognised on a straight line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

Balance at the beginning of the year	46,614	64,458
Operating Lease expenses recorded	1,442,251	1,457,138
Operating Lease payments effected	(1,445,151)	(1,474,982)
	43,714	**46,614**

8. Employee benefit obligations

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

Carrying value		
Post Retirement Medical Obligations	(27,957,000)	(29,047,000)
Long Service Awards	(7,672,000)	(5,876,000)
Staff Bonus Accrual	(3,078,512)	(2,784,044)
Performance Bonus provision	(929,558)	(647,927)
	(39,637,070)	**(38,354,971)**
Non-current liabilities	(32,878,000)	(33,405,000)
Current liabilities	(6,759,070)	(4,949,971)
	(39,637,070)	**(38,354,971)**

Refer to note 16 for the disclosure relating to the Non-current and current portions of the Long Service Awards.

Refer to note 17 for the disclosure relating to the staff leave accrual, staff bonus accrual and the performance bonus provision current liabilities.

Notes to the Financial Statements

Figures in Rand	2014	2013

8. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
Opening balance	29,047,000	26,169,074
Benefits paid	(1,306,000)	(950,000)
Net expense recognised in the statement of financial performance	216,000	3,827,926
	27,957,000	**29,047,000**

Net expense recognised in the statement of financial performance

	2014	2013
Current service cost	1,307,000	1,191,729
Interest cost	2,302,000	2,007,100
Actuarial (gains) losses	(3,393,000)	629,097
	216,000	**3,827,926**

Calculation of actuarial gains and losses

	2014	2013
Actuarial (gains) losses – Obligation	(3,393,000)	629,097

Key assumptions used

Assumptions used at the reporting date:

	2014	2013
Discount rates used	8.94 %	7.89 %
Net effective discount rate	0.82 %	0.70 %
Consumer price inflation	7.05 %	6.14 %
Health care cost inflation rate	8.05 %	7.14 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	709,000	(558,000)
Effect on defined benefit obligation	4,667,000	(3,784,000)

Amounts for the current and previous four years are as follows:

	2014 R	2013 R	2012 R	2011 R	2010 R
Defined benefit obligation	27,957,000	26,169,074	21,766,827	22,273,109	18,460,067
Surplus (deficit)	27,957,000	26,169,074	21,766,827	22,273,109	18,460,067
Experience adjustments on plan liabilities	3,847,353	5,329,200	(1,481,847)	2,610,116	1,084,656

Figures in Rand	2014	2013

8. Employee benefit obligations (continued)

Defined contribution plan

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

Cape joint pension fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the fund had a deficit of R58,9 (30 June 2010: surplus of R0,0) million, with a funding level of 98,1% (30 June 2010: 100,0%). The balance of the Solvency Reserve was R4,9 (30 June 2010: R4,9) million. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is less than the recommended contribution rate of 32,4%.

Government Employees Pension Fund (GEPF)

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 31 March 2010.

The statutory valuation performed as at 31 March 2010 revealed that the fund had a surplus of R0,0 (31 March 2008: R0,0) million, with a funding level of 100,0% (31 March 2008: 100,0%). The contribution rate paid by the members (7,50%) and the municipalities (13,00%) is sufficient to fund the benefits accruing from the fund in the future.

South African Local Authorities Pension Fund (SALA)

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 1 July 2010.

The statutory valuation performed as at 1 July 2010 revealed that the fund had a deficit of 307,6 (1 July 2009: Deficit of R264,2) million, with a funding level of 96% (1 July 2009: 96%). The contribution rate paid by the members (7,50% to 9,00%) and the municipalities (15,00% to 20,80%) is is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R9 869 (30 June 2010: R8 220) million, with funding levels of 100,3% and 116,9% (30 June 2010: 99,9% and 100,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

SAMWU (South African Municipal Workers Union) National Provident Fund

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2005.

The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002: 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

9. Prepayments

Payments made in adavance		
Payments made in advance	25,236,190	27,066,214

10. Inventories

Consumable stores	1,186,585	665,326
Maintenance Materials	381,729	180,365
Spare parts	54,374	27,537
	1,622,688	**873,228**

Notes to the Financial Statements

Figures in Rand	2014	2013

11. Sundry Receivables from non-exchange transactions

Sundry receivables	9,170,417	5,535,966
Sundry deposits	2,989,533	1,843,110
Debt impairment	(745,476)	(1,832,937)
Government grants and subsidies	37,258,378	184,210,035
Recoverable works	-	849,256
Water Services Debtors	1,630,658	-
Sundry debtors	179,115	351,337
	50,482,625	**190,956,767**

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	50,482,625	190,956,767

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	1,832,937	1,899,503
Provision for impairment	(1,087,461)	2,368,138
Amounts written off as uncollectible	-	(2,434,704)
	745,476	**1,832,937**

12. VAT receivable

VAT	26,685,825	49,028,726

Notes to the Financial Statements

Figures in Rand	2014	2013

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,200	2,200
Bank balances	7,155,264	134,595,081
Short-term deposits	244,178,100	57,051,012
Bank overdraft	(17,619,856)	-
	233,715,708	**191,648,293**

Current assets	251,333,364	191,648,293
Current liabilities	(17,619,856)	-
	233,713,508	**191,648,293**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates. Excess cash is invested with reputable financial institutions with good credit ratings.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
First National Bank - Current Account - 62002510693	7,155,264	152,858,977	(8,934,177)	(10,464,592)	134,595,081	(8,736,377)
First National Bank - Call Account - 62004499481	244,175,900	57,051,012	238,958,573	244,175,900	57,051,012	238,958,573
Total	**251,331,164**	**209,909,989**	**230,024,396**	**233,711,308**	**191,646,093**	**230,222,196**

14. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2014

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	-	2,690,061,121
Surplus	-	-	-	851,754,925	851,754,925
	50,896,894	**2,637,664,227**	**1,500,000**	**851,754,925**	**3,541,816,046**

Ring-fenced internal funds and reserves within accumulated surplus - 2013

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	-	2,690,061,121
Surplus	-	-	-	486,046,058	486,046,058
	50,896,894	**2,637,664,227**	**1,500,000**	**486,046,058**	**3,176,107,179**

Notes to the Financial Statements

Figures in Rand	2014	2013

15. Unspent conditional grants and receipts

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

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

Unspent conditional grants		
National : Finance Management Grant	-	13,014
National: EPWP	-	-
National Department of Transport - Rural Road Asset Management	-	37,319
National : Department of Water Affairs and Forestry: Water Services Operating grant	-	4,841,487
National : Municipal Systems Infrastracture Grant	-	11,890
	-	**4,903,710**

Unspent agency funds		
National : Department of Rural Development and Land Reform	402,614	402,614
National : Sport and Development	16,140,327	16,140,327
Provincial : Office of the Premier	21,569	21,569
Provincial : Treasury	1,606,965	1,606,965
National : Department of Agriculture	-	2,261,779
National : Department of Economic Affairs and Trade	-	798,736
Provincial : Department of Housing , Local Government and Traditional Affairs	1,395,941	4,292,767
Provincial : Department of Economic Affairs	14,308,883	14,393,701
Provincial : Department of Transport	1,732,097	1,732,097
Other Spheres of Government	7,162,449	7,162,449
	42,770,845	**48,813,004**

Unspent grants	-	4,903,710
Unspent agency funds	42,770,845	48,813,004
	42,770,845	**53,716,714**

Notes to the Financial Statements

Figures in Rand	2014	2013

16. Long Service Awards

Reconciliation of long service awards - 2014

	Opening Balance	Additions	Utilised during the year	Total
Long term service awards	5,876,000	2,190,000	(394,000)	7,672,000

Reconciliation of long service awards - 2013

	Opening Balance	Additions	Utilised during the year	Total
Long term service awards	4,079,101	2,572,590	(775,691)	5,876,000

	2014	2013
Non-current liabilities	6,339,000	5,433,000
Current liabilities	1,333,000	443,000
	7,672,000	**5,876,000**

Long service awards

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after 5 years (2013: 5 years) of continuous service, and every 5 years thereafter, to 25 years (2013: 25 years) of continuous service. The provision is an estimate of the long service based on historical staff turnover.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by ZAQ Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

At year end 390 (2013: 385) employees were eligible for Long- service awards.

The Current service cost for the year ending 30 June 2014 was estimated to be R 958,000, whereas the cost for the ensuing year is estimated to be R 1,124,000.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	2014	2013
Discount rate	7.40%	7.40%
Consumer price inflation	5.66%	5.66%
Normal salary increase rate	6.66%	6.66%
Net effective discount rate	0.69%	0.69%

Changes in the present value of the defined benefit obligation are as follows

	2014	2013
Opening balance	5,876,000	4,079,101
Current service cost	958,000	992,886
Interest cost	441,000	226,941
Benefits paid	(394,000)	(775,691)
Actuarial (gains) losses	791,000	1,352,763
	7,672,000	**5,876,000**

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

	2014	2013
Present value of the defined benefit obligation wholly unfunded	7,672,000	5,876,000

Net expense recognised in the statement of financial performance

	2014	2013
Current service cost	958,000	992,886
Interest cost	441,000	226,941
Actuarial (gains) losses	791,000	1,352,763
	2,190,000	**2,572,590**

Figures in Rand	2014	2013

17. Current employee benefits

Current Employee Benefits		
Staff Bonus Accrual	3,078,512	2,784,044
Performance bonus provision	929,558	647,927
Current portion of Post-retirement benefits	1,418,000	1,075,000
Current portion of Long Service Awards	1,333,000	443,000
	6,759,070	**4,949,971**

Other current employee benefits - 2014	Opening balance	Additions	Reversed during the year	Total
Staff bonus accrual	2,784,044	294,468	-	3,078,512
Performance bonus provision	647,927	929,558	(647,927)	929,558
Subtotal	3,431,971	1,224,026	(647,927)	4,008,070
	3,431,971	**1,224,026**	**(647,927)**	**4,008,070**

Other current employee benefits - 2013	Opening balance	Additions	Reversed during the year	Total
Staff bonus accrual	2,494,635	289,409	-	2,784,044
Performance bonus provision	981,598	647,927	(981,598)	647,927
Subtotal	3,476,233	937,336	(981,598)	3,431,971
	3,476,233	**937,336**	**(981,598)**	**3,431,971**

18. Payables from exchange transactions

Trade payables	46,299,901	30,560,195
Payments received in advanced	578,513	440,576
Study Loans	-	17,678
Retentions	9,795,970	8,164,048
Accrued leave pay	6,581,690	5,555,352
Deposits received	8,335	8,335
Sundry creditors	54,609,413	141,489,744
Inxuba Yethemba Local Municipality - Water Services	-	4,569,919
Emalahleni Local Municipality - Water Services	590,957	2,865,883
Salary related creditors	-	2,941,712
Inkwanca Local Municipality - Water Services	1,453,160	-
Lukhanji Local Municipality - Water Services	993,245	-
Sakhisizwe Local Municipality - Water Services	951,902	-
Tsolwana Local Municipality - Water Services	220,447	-
	122,083,533	**196,613,442**

Fair value of trade and other payables

Trade payables	46,299,901	30,560,196

19. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Investments	129,043,449	-	129,043,449
Other receivables from non-exchange transactions	-	50,482,625	50,482,625
Prepayments	-	25,236,190	25,236,190
Cash and cash equivalents	251,333,364	-	251,333,364
	380,376,813	**75,718,815**	**456,095,628**

Financial liabilities

	At amortised cost	Total
Retirement benefit obligation	39,637,070	39,637,070
Trade and other payables from exchange transactions	122,083,533	122,083,533
Bank overdraft	17,619,856	17,619,856
	179,340,459	**179,340,459**

2013

Financial assets

	At fair value	At amortised cost	Total
Investments	116,732,579	-	116,732,579
Other receivables from non-exchange transactions	-	190,956,767	190,956,767
Prepayments	-	27,066,214	27,066,214
Cash and cash equivalents	191,648,293	-	191,648,293
	308,380,872	**218,022,981**	**526,403,853**

Financial liabilities

	At amortised cost	Total
Retirement benefit obligation	38,354,971	38,354,971
Trade and other payables from exchange transactions	196,613,442	196,613,442
	234,968,413	**234,968,413**

Notes to the Financial Statements

Figures in Rand	2014	2013

20. Revenue

Rental of facilities and equipment	39,000	94,250
Other income	15,458,837	12,231,300
Interest received - investment	25,983,684	19,049,242
Government grants & subsidies	1,037,992,532	974,677,251
	1,079,474,053	**1,006,052,043**

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

Rental of facilities and equipment	39,000	94,250
Other income	15,458,837	12,231,300
Interest received - investment	25,983,684	19,049,242
	41,481,521	**31,374,792**

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

Transfer revenue

Government grants & subsidies	1,037,992,532	974,677,251

Notes to the Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies

Revenue from Unspent conditional grants		
National : Finance Management Grant	1,513,014	1,528,157
National: Municipal Infrastructure Grant	375,613,000	346,428,658
National: EPWP	8,445,000	9,835,001
National: Department of Transport - Rural Road Asset Management	2,626,319	961,072
National : Department of Water Affairs and Forestry - Water Services Operating Grant	15,841,487	12,566,513
National : Municipal Systems Infrastructure Grant	901,890	991,245
National: MWIG	29,372,000	-
National: RHIG	4,511,000	-
	438,823,710	372,310,646
Revenue from Unspent conditional agency fees		
National : Department of Public Works	-	3,886,926
National : Sport and Development	-	393,500
National : Department of Agriculture	2,261,779	9,433,079
Provincial : Department of Economic Affairs and Trade	1,348,736	1,201,264
Provincial : Department of Housing, Local Government and Traditional Affairs	2,896,826	3,456,168
Provincial : Department of Transport	-	1,776,000
Provincial : Department of Economic Affairs	2,459,318	-
	8,966,659	20,146,937
	447,790,369	**392,457,583**

Revenue from other Unconditional Grants and Subsidies		
Equitable Share	384,900,000	359,060,000
National: Department of Water Affairs and Forestry - RBIG	156,363,083	185,576,717
National: Department of Water Affairs and Forestry - ACIP	7,419,855	5,126,745
Subsidy: Eastern Cape Aids Council	-	60,000
Subsidy: L G SETA	32,638	71,372
National: ACIP - Capacity Building	300,000	-
Provincial : Road Subsidies	32,387,692	32,324,833
Provincial: Department of Health - EHP	8,798,894	-
	590,202,162	**582,219,667**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	447,790,369	392,457,583
Unconditional grants and subsidies received	590,202,162	582,219,667
	1,037,992,531	**974,677,250**

21. Government grants and subsidies (continued)

Equitable Share

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

National : Finance Management Grant

Balance unspent at beginning of year	13,014	41,171
Current-year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,513,014)	(1,528,157)
	-	**13,014**

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

The grant is provided by National Treasury to help implement the financial management reforms required by the Municipal Finance Management Act..

National : Municipal Systems Infrastructure Grant

Balance unspent at beginning of year	11,890	3,135
Current-year receipts	890,000	1,000,000
Conditions met - transferred to revenue	(901,890)	(991,245)
	-	**11,890**

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

The grant is allocated to municipalities to assist in building in house capacity to perform their functions and to improve and stabilise municipal systems.

National : Municipal Infrastructure Grant

Balance unspent at beginning of year	-	1,185,658
Current-year receipts	375,613,000	345,243,000
Conditions met - transferred to revenue	(375,613,000)	(346,428,658)
	-	**-**

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

The grant is allocated for the construction of basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure and eradicate bucket sanitation systems.

National : Department of Rural Development and Land Reform

Balance unspent at beginning of year	402,614	402,614

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

The grant is used to promote rural development and land reform.

National : Department of Public Works

Balance unspent at beginning of year	-	3,886,926
Conditions met - transferred to revenue	-	(3,886,926)
	-	**-**

Notes to the Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies (continued)

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

The grant is utilised for the maintenance of roads in the jurisdiction areas of the municipality.

National : Sport and Development

Balance unspent at beginning of year	16,140,327	16,533,828
Conditions met - transferred to revenue	-	(393,501)
	16,140,327	**16,140,327**

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

The grant is utilised for the building and maintenance of libraries in the district..

Provincial : Office of the Premier

Balance unspent at beginning of year	21,569	21,569

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

The grant is allocated to assist the municipality on staging national events for e.g Women's day , Heritage day etc

Provincial : Treasury

Balance unspent at beginning of year	1,606,965	1,606,965

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

The grant is utilised to support the municipality in the improvement of its financial administration.

Provincial : Department of Agriculture

Balance unspent at beginning of year	2,261,779	11,694,857
Conditions met - transferred to revenue	(2,261,779)	(9,433,078)
	-	**2,261,779**

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

The grant is utilised for the soil conservation in different areas within the district.

Notes to the Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies (continued)

Provincial : Department of Economic Affairs and Trade (DEAT)

Balance unspent at beginning of year	798,736	500,000
Current-year receipts	550,000	1,500,000
Conditions met - transferred to revenue	(1,348,736)	(1,201,264)
	-	**798,736**

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

The grant is used to assist in local economic development and the promotion of tourism.

Provincial : Department of Housing , Local Government and Traditional Affairs

Balance unspent at beginning of year	4,292,767	7,748,935
Conditions met - transferred to revenue	(2,896,826)	(3,456,168)
	1,395,941	**4,292,767**

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

The grant is used to assist in providing local housing.

Provincial : Department of Economic Affairs

Balance unspent at beginning of year	14,393,701	10,924,136
Current-year receipts	2,374,500	3,469,565
Conditions met - transferred to revenue	(2,459,318)	-
	14,308,883	**14,393,701**

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

The grant is used to assist in local economic development.

Provincial : Department of Transport

Balance unspent at beginning of year	1,732,095	1,732,095
Current-year receipts	-	1,776,000
Conditions met - transferred to revenue	-	(1,776,000)
	1,732,095	**1,732,095**

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

The grant is utilised for the maintenance of proclaimed roads in the jurisdiction areas of the municipality..

Figures in Rand	2014	2013

21. Government grants and subsidies (continued)

National : Other spheres of Government

Balance unspent at beginning of year	7,162,449	7,162,449

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

The municipality receives grants from other spheres of government for various projects for social upliftment of the communities in the district.

National : Department of Water Affairs and Forestry - Water Services Operating grant

Balance unspent at beginning of year	4,841,487	-
Current-year receipts	11,000,000	17,408,000
Conditions met - transferred to revenue	(15,841,487)	(12,566,513)
	-	**4,841,487**

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

This is a schedule 7 grant utilised to address the backlog on Bulk Water Supply.

National: Department of Transport - Rural Road Asset Management

Balance unspent at beginning of year	37,319	998,390
Current-year receipts	2,589,000	-
Conditions met - transferred to revenue	(2,626,319)	(961,071)
	-	**37,319**

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

The grant is utilised for the maintenance of roads in the jurisdiction areas of the municipality.

National : EPWP

Current-year receipts	8,445,000	9,835,000
Conditions met - transferred to revenue	(8,445,000)	(9,835,000)
	-	**-**

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

The grant is utilised for the maintenance of roads in the jurisdiction areas of the municipality.

National: Municipal Water Infrastructure Grant

Current-year receipts	29,372,000	-
Conditions met - transferred to revenue	(29,372,000)	-
	-	**-**

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

National: Rural Household Infrastructure Grant

Current-year receipts	4,511,000	-
Conditions met - transferred to revenue	(4,511,000)	-
	-	**-**

21. Government grants and subsidies (continued)

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

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

22. Other income

	2014	2013
Private telephone calls	16,797	39,649
Tender documents	86,100	92,880
Commission on collections	107,274	94,686
Insurance claims	686,504	48,537
Sundry revenue	13,484,904	11,934,309
Skills development fund	77,000	-
Other revenue	1,000,258	21,239
	15,458,837	**12,231,300**

23. General expenses

	2014	2013
Advertising	1,619,382	1,455,172
Auditors remuneration	5,178,713	4,805,866
Computer expenses	994,235	1,023,344
Consulting and professional fees	1,762,469	488,177
Consumables	201,058	76,547
Entertainment	1,205,835	677,416
Insurance	1,010,186	682,354
Conferences and seminars	706,329	439,612
Lease rentals on operating lease	1,926,398	1,957,300
Fuel and oil	730,224	659,287
Printing and stationery	1,870,355	780,604
Staff welfare	612,291	553,531
Subscriptions and membership fees	2,137,544	1,153,718
Telephone and fax	3,400,475	3,069,180
Training	852,697	418,883
Travel - local	10,252,363	7,053,844
Electricity	9,627,652	9,623,056
Rates	330,883	292,489
Strategic sessions	2,688,604	694,670
Public events / Imbizo	1,930,789	1,897,817
Purchase of samples	720,914	897,702
Job evaluation	556,556	152,470
Communication	1,535,979	2,068,086
Approved courses	284,961	437,426
Circumcision programme	93,726	-
Pest control	1,810	-
Reporting documents	121,905	-
Other expenses	2,831,651	3,862,456
	55,185,984	**45,221,007**

Notes to the Financial Statements

Figures in Rand	2014	2013

24. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	1,926,398	1,957,300
Loss on sale of property, plant and equipment	(1,135,510)	-
Gain on sale of intangible assets	-	25,198,749
Amortisation on intangible assets	644,822	263,877
Depreciation on property, plant and equipment	90,957,616	91,033,021
Employee costs	141,546,326	130,483,636

Notes to the Financial Statements

Figures in Rand	2014	2013

25. Employee related costs

Basic	84,055,648	74,639,343
Bonus	6,805,169	5,121,488
Medical aid - company contributions	4,426,858	3,762,932
UIF	655,000	590,275
SDL	1,184,350	996,272
Leave pay provision charge	1,770,547	2,304,119
Leave pay provision charge	1,026,338	-
Industrial Council levies	23,432	21,039
Post-employment benefits - Defined Contribution Plan	2,406,000	6,400,516
Travel, motor car, accommodation, subsistence and other allowances	15,904,924	13,111,212
Overtime payments	1,298,457	1,163,923
Long-service awards	62,786	(13,153)
Housing benefits and allowances	1,083,591	979,238
Termination benefits	13,511,748	13,488,252
	134,214,848	**122,565,456**

Included in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager

Annual Remuneration	902,325	681,477
Car and other allowances	298,165	288,185
Contributions to UIF, Medical and Pension Funds	26,377	210,287
Service bonus	73,270	23,083
Other	54,466	29,638
	1,354,603	**1,232,670**

Remuneration of Director : Finance

Annual Remuneration	759,165	254,854
Car and other allowances	236,958	74,210
Contributions to UIF, Medical and Pension Funds	53,095	82,967
Acting allowance	45,104	164,344
	1,094,322	**576,375**

Remuneration of Director : Corporate services - Mdleleni

Annual Remuneration	-	138,572
Car and other allowance	-	73,856
Contributions to UIF, Medical and Pension Funds	-	40,518
Service bonus	-	34,675
Other	-	76,460
	-	**364,081**

Remuneration of Director : Corporate services - Matakane

Annual Remuneration	765,015	459,686
Car and other allowances	274,503	180,587
Contributions to UIF, Medical and Pension Funds	-	122,332
Service Bonus	62,121	31,608
Other	90,085	15,940
	1,191,724	**810,153**

Notes to the Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Remuneration of Director : Health Services

Annual Remuneration	765,015	623,090
Car and other allowances	292,945	300,162
Contributions to UIF, Medical and Pension Funds	-	154,775
Service bonus	62,121	46,191
Other	42,787	29,719
	1,162,868	**1,153,937**

Remuneration of Director : Intergrated Planning and Development

Annual Remuneration	765,015	623,090
Car and other allowances	326,324	321,789
Contributions to UIF, Medical and Pension Funds	137,703	124,655
Acting allowance	-	8,319
Service bonus	62,121	46,191
Other	44,063	32,968
	1,335,226	**1,157,012**

Remuneration of Director : Strategic Services

Annual Remuneration	702,894	138,572
Car and other allowances	255,501	79,499
Contributions to UIF, Medical and Pension Funds	-	27,817
Service bonus	25,884	34,675
Other	40,124	55,887
	1,024,403	**336,450**

Remuneration of Director : Technical Services

	-	-
Annual Remuneration	765,015	623,090
Car and other allowances	287,074	287,598
Contributions to UIF, Medical and Pension Funds	137,703	181,643
Service bonus	62,121	46,191
Other	48,915	32,968
	1,300,828	**1,171,490**

26. Remuneration of councillors

Executive Mayor	724,669	690,159
Chief Whip	498,903	522,587
Mayoral Committee Members	2,640,035	3,039,378
Speaker	582,900	495,775
Councillors	2,884,971	3,170,281
	7,331,478	**7,918,180**

27. Debt impairment

Debt impairment	(1,087,461)	2,368,138

Notes to the Financial Statements

Figures in Rand	2014	2013

28. Investment revenue

Interest revenue		
Bank	7,518,923	6,372,163
Unlisted financial assets	18,014,966	12,677,079
Interest: Other	449,795	-
	25,983,684	**19,049,242**

29. Fair value adjustments

Other financial assets		
• Fair value adjustments to Other property, plant and equipment	6,025,400	6,331,232

30. Depreciation and amortisation

Property, plant and equipment	90,957,616	91,033,021
Intangible assets	644,822	263,877
	91,602,438	**91,296,898**

31. Finance costs

Non-current borrowings	-	160,726
Trade and other payables	125,808	131,228
Interest: Other	-	57
Other interest paid	-	576,218
	125,808	**868,229**

32. Auditors' remuneration

Fees	5,178,713	4,805,866

33. Rental of facilities and equipment

Premises		
Premises	39,000	94,250

34. Contracted services

Other Contractors	9,197,339	1,028,202

35. Grants and subsidies paid

Other subsidies		
Engcobo Local Municipality	24,081,295	22,040,550
Ikwanca Local Municipality	12,678,602	6,047,152
Emalahleni Local Municipality	21,734,182	23,882,680
Intsika Yethu Local Municipality	26,831,598	25,703,987
Inxuba Yethemba Local Municipality	3,700,411	8,429,327
Lukhanji Local Municipality	30,652,151	25,467,803
Sakhisizwe Local Municipality	13,947,458	13,311,168
Tsolwana Local Municipality	10,635,150	10,299,704
Community projects	251,865,800	394,043,200
Pauper burials	47,479	16,989
Chris Hani Development Agency	9,749,723	-
	405,923,849	**529,242,560**

Notes to the Financial Statements

Figures in Rand	2014	2013

35. Grants and subsidies paid (continued)

Grants and subsidies are allocated to local municipalities to assist them in the provision of services.

Community projects are in respect of conditional grants utilised for the upliftment of the housing and service needs of communities within the municipality's area of jurisdiction.

36. Bulk purchases

	2014	2013
Water	13,322,406	13,174,780

37. Cash generated from operations

	2014	2013
Surplus	366,073,006	196,953,675
Adjustments for:		
Depreciation and amortisation	91,602,438	91,602,438
Gain on restatement of assets and liabilities	1,135,510	-
Fair value adjustments	(6,025,400)	(6,331,232)
Debt impairment	(1,087,461)	2,368,138
Movements in operating lease assets and accruals	(2,900)	(17,844)
Movements in retirement benefit assets and liabilities	2,308,437	(17,741,249)
Movements in provisions	-	5,060,699
Changes in working capital:		
Inventories	(749,460)	(75,924)
Other receivables from non-exchange transactions	(5,390,419)	105,524,093
Prepayments	1,830,024	(3,938,068)
Payables from exchange transactions	(75,556,247)	91,319,198
VAT	22,342,901	(24,218,589)
Unspent conditional grants and receipts	(10,945,869)	(14,620,961)
	385,534,560	**425,884,374**

Notes to the Financial Statements

Figures in Rand	2014	2013

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	808,431,466	722,635,519
• Community	39,635,725	35,114,556
	848,067,191	**757,750,075**
Not yet contracted for and authorised by accounting officer		
• Infrastructure	44,013,318	170,195,427
• Community	20,829,864	9,535,658
	64,843,182	**179,731,085**

This committed expenditure relates to plant and equipment and will mainly be financed by Infrastructure Grants (Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant and Municipal Water Infrastructure Grant) as well as available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due - Buildings		
- within one year	395,580	991,849
- in second to fifth year inclusive	280,734	-
	676,314	**991,849**
Minimum lease payments due - Other Equipment		
- within one year	348,656	105,782
- in second to fifth year inclusive	530,551	164,306
	879,207	**270,088**
The total future minimum sublease payment expected to be received under non-cancellable sublease	1,555,521	1,261,937

Notes to the Financial Statements

Figures in Rand	2014	2013

39. Contingencies

Contingent liabilities

Cession/Resolution - First National Bank	20,000	-
Guarantee - S.A. Post Office	-	20,000
Outstanding payments RDP Services appointed by CHDM for the upgrading of streets and stormwater drainage, and the building of VIP toilets. The service provider has instituted action against the CHDM for recovery of payments allegedly not made.	2,501,111	2,501,111
Samwu - arbitration award against CHDM	-	313,236
	2,521,111	**2,834,347**

Contingent assets

Court proceedings

Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Dambuza S	13,692	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Erasmus M	1,522	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Somdyala N	11,508	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Maki TP	13,857	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Shelver S	4,343	-
Collection Matter - CHDM handed the debtor over for representative membership incorrectly paid - Mvontshi M	2,182	-
Collection Matter - CHDM handed the debtor over for outstanding car debt - Ntondo M	42,923	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Mpakama PP	16,700	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Mayise A	4,323	-
Collection Matter - CHDM handed the debtor over for outstanding cellphone account - Cezu Z	7,669	-
Matter handed over for outstanding amount owing in respect of Kiln - Untingo Lukhosi	192,660	-
	311,379	**-**

Notes to the Financial Statements

Figures in Rand	2014	2013

40. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report
Associates	Chris Hani Development Agency - refer to note
Members of key management	Key management of the municipality have relationships with businesses as indicated below:
Nqwazi N	Director of Bartoplex; Director of Copper Sunset Trading 407; Director of Tuscan Mood 183; Director of Westside Trading 253; 20% Membership in Aphuhile Business Consultants; 30% Membership in Great Oak Trading 29; 30% Membership in Kwalago Trading; 50% Membership in Osstinox Promotions; 50% Membership in Round About Multi Projects; 50% Membership in The Galz Property Investment & Development
Ngqele Y	Founder & Director of Covenant Family Union NPC
Dyasi-De Lange MP	50,02% Membership in Siyaphuhlisa Consulting Services CC; Spouse is owner of Classy Trade Investments 1094 CC
Memani TH	Child is a Member of Vunoleo Building & Civil Youth Construction
Fumbeza N	33,33% Membership in Thembalobom Manufacturing & Enterprise CC
Jaxa-Dusubana V	33,33% Membership in Seven Mile Trading 132 CC; Spouse has 33% membership in Galindo Trading 121 CC
Makonza A	100% Membership in Seasons Find 1260 CC
Silangwe M	Spouse is a member of Thakwemi Consulting
Ngqoyiyana M	100% Membership in Jazzmataz Construction
Gobeni N	Director of Hi-Lite Development Agency
Makwabe T	50% Membership in Mokoti Construction
Lucando B	33% membership in El Shaddai Civil and Building Contractors
Nkonki S	100% membership in Nkonki Driving School, 70 % membership in Lumanyano Suppliers, 50% membership in Isisele Consulting
Councillors	Refer to list of councillors disclosed under general information.Councillors of the municipality have relationships with businesses as indicated below:
Bula MN	20% Membership in Polonius Investments; 25% Membership in Bendis Investments; 100% Membership in Gobashe Trading Enterprise; 100% Membership in Zinkamba Trading 1002
Dyantyi SR	Director and Founding Member of Happy Valley Abattoir Co-operative Limited; Director of Sanelisa Services; Director of Tlholo Entrepreneur Support Centre
Gela W	Director of Ithemba Liyaphilisa Financial Services; Director of Sesinethemba Construction; 10% Membership in Silver Solutions 2978; 20% Membership in Sikhuselu'Iuntu Protection and Training Services; 20% Membership in The Best Mining and Transportation Services; 20% Membership in Urafile Trading
Goniwe N	33,33% Membership in Karoo Furniture Manufacturers; 33,33% Membership in Umehluko Developments; 33,34% Membership in Imvelo Agencies; 50% Membership in Balisa Sivelise Productions

Notes to the Financial Statements

Figures in Rand	2014	2013

40. Related parties (continued)

Koyo MC	Director of Tsomo Valley Farmers; 100% Membership in MBK Consulting Services; Spouse has membership in Buyie's Catering Service, Liwalama Trading Enterprise and Qamata Agric Service
Kulashe-Ndyumbu T	Director and Founding Member of DDX General Trading; Director and Founding Member of Mayidede General Trading
Magwashu NG	50% Membership in Magwashu Development Projects
Mandile PP	50% Membership in Mfe-Gebe Trading
Matiwane-Bashe N	33,50% Membership in Noxxa Construction; 100% Membership in Shine the Way 708; Brother is a Member of Inyameko Trading 689
Mbolo S	25% Membership in Amabandla Construction; 50% Membership in Monde Skosana Building Construction
Mvontshi M	100% Membership in Mgando Trading Enterprise
Nkwentsha-Gunuza L	Director of Lembede Investment Holdings (Pty) Ltd; Director of Lembede Strategic Investments (Pty) Ltd
Nobongoza H	Director of Madcomsol Holdings (company has been deregistered); 25% Membership in Sangolekhaya Funeral Services; 100% Membership in Sunrise Coach Services; 100% Membership in Tando-Luzuko Trading & Projects
Nobongoza TP	Director of Sakhisizwe Multi-purpose Resource Centre (Section 21 Company)
Nontsele M	33,30% Membership in Izibele Management Services
Nquma NP	33,40% Membership in Fenas and Nquma Civils and Property Developers
Ntakana S	100% Membership in Ntakana Brothers Transport and Construction
Ntoni BO	12,50% Membership in Ntoni and Zikhali Contractors
Plata SD	100% Membership in Daves Energy Distribution CC
Radzilani NR	Director of Forecast Traders
Roskruge N	30% Membership in Liqhakazi Construction and Projects; 100% Membership in Amilile Trading Enterprise
Shweni ZR	Spouse is a member of Shweni Trading, Ngxongounathi security, Bomi investment Holdings, Bomi investment Holdings, Eand So civil engineering and construction, Hlumisa Travelling Agency, Ezomso training and conference centre, Lilitha vehicle hire, Manzana Mancoba and Shweni Heavy Duty Transportation
Municipal employees	Employees of the municipality have relationships with businesses as indicated below:
Hlahla Mtibe NNV	Spouse is a member of Yovo Trading Enterprise
Mankayi BJ	Spouse is a member of Mandush General Trading (Pty) Ltd
Pukwana PC	Spouse is a director of Chris Hani District Co-operative Development Centre

Related party transactions

Purchases from (sales to) related parties		
Classy Trade Investments 1094 CC	1,672,496	-
Thakweni Consulting	-	4,200
Yovo Trading Enterprise	52,168	-
Mandush General Trading (Pty) Ltd	14,600	-
Chris Hani District Co-operative Development Centre	14,157,165	-

Notes to the Financial Statements

Figures in Rand	2014	2013

41. Prior period errors

1. The prior year Sundry Receivables balance relating to SARS: Interest and Penalties has been restated to take into account balances erroneously not cleared.

2. The prior year Sundry Receivables balance relating to Duplicate Payments has been restated to take into account balances erroneously not cleared.

3. The prior year Sundry Receivables balance relating to Vodacom Debtors has been restated to take into account balances erroneously not cleared.

4. The prior year Sundry Creditors balance relating to project expenditure accruals has been restated to correct a reversal of valid accrual amounts made in error.

5. The prior year Provision for Performance Bonuses has been restated to reflect the correction per management report finding stating that the calculation eroneously took into account managers who have resigned.

6. The prior year non-current and current portions of the Provision for Long Service Awards has been restated to correct the misstatement of these amounts in the prior year financial statements.

7. The prior year amount for Interest on External Borrowings have been restated to reflect the correct portion of interest allocated against the DBSA liability.

8. The opening balance for PPE has been restated to correct an overstatement and understatement of the Depreciation charge per 12/13 AFS.

9. The opening balances for PPE and Intangible Assets and Unspent Conditional Grants have been restated to correct errors which were made in the 11/12 financial year. The effect of the corrections on the opening balance of Accumulated Surplus is reflected below.

10. The opening balance Non-current Investments has been restated to exclude the agency surplus incorrectly accounted for in the prior year.

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

Figures in Rand	2014	2013

41. Prior period errors (continued)

Accumulated Surplus
Effect of Correction of Errors on opening balances for 2011-2012

	2014	2013
As previously reported	-	2,956,391,041
Correction of misstatement of Department of Transport grant creditor	-	3,894,943
PPE: Effect of the reassessment of useful lives (cost)	-	9,706,166
PPE: Effect of the reassessment of useful lives (accumulated depreciation)	-	14,303,337
Intangible Assets: Effect of the reassessment of useful lives (cost)	-	(1,529,981)
Intangible Assets: Effect of the reassessment of useful lives (accumulated amortisation)	-	2,719,227
PPE: Effect of the reassessment of depreciation on Infrastructure Assets	-	(364,139)
	-	**2,985,120,594**

Accumulated Surplus
Effect of Correction of Errors on opening balances for 2012-2013

	2014	2013
As previously reported (taking into account the effect of the restatement above)	-	(3,178,038,574)
Write-off SARS: Interest and Penalties balance not previously cleared	-	576,218
Write-off Duplicate Payments balance not previously cleared	-	660,765
Write-off Vodacom Debtors balance not previously cleared	-	492,323
Correction of performance bonus accrual	-	(55,279)
DBSA Interest correction	-	65,222
Correction of depreciation on Infrastructure assets	-	(711,824)
Reversal of agency surplus	-	650,891
PPE: Effect of the reassessment of depreciation on Infrastructure Assets	-	126,568
	-	**(3,176,233,690)**

Statement of Financial Position
Receivables from non-exchange transactions

	2014	2013
As previously reported	-	192,686,074
Write-off SARS: Interest and Penalties balance not previously cleared	-	(576,218)
Write-off Duplicate Payments balance not previously cleared	-	(660,765)
Write-off Vodacom Debtors balance not previously cleared	-	(492,323)
	-	**190,956,768**

Statement of Financial Position
Payables from exchange transactions

	2014	2013
As previously reported	-	(198,267,296)
Project Expenditure accruals incorrectly reversed	-	(1,064,973)
Reclassification of current employee benefits	-	8,339,396
DBSA Interest correction	-	(65,222)
	-	**(191,058,095)**

Statement of Financial Position
Provisions - current portion

	2014	2013
As previously reported	-	(164,608)
Effect of correction of short-term portion of long service award	-	(981,598)
Correction of performance bonus accrual	-	55,279
Reclassification of current employee benefits	-	1,090,927
	-	**-**

Statement of Financial Position
Property, Plant and Equipment

	2014	2013
As previously reported	-	2,860,007,127
Project Expenditure accruals incorrectly reversed	-	1,064,969
Correction of depreciation on Infrastructure Assets	-	711,824

Notes to the Financial Statements

Figures in Rand	2014	2013

41. Prior period errors (continued)

Effect of the reassessment of useful lives (cost)	-	9,706,166
Effect of the reassessment of useful lives (accumulated depreciation)	-	14,303,337
PPE: Effect of the reassessment of depreciation on Infrastructure Assets	-	(126,568)
	-	**2,885,666,855**

Statement of Financial Position
Non-current provisions

As previously reported	-	6,414,598
Correction of short-term portion for 12-13	-	(981,598)
Reclassification of current employee benefits	-	(5,433,000)
	-	**-**

Statement of Financial Position
Intangible Assets

As previously stated	-	177,009
Effect of the reassessment of useful lives (cost)	-	(1,529,981)
Effect of the reassessment of useful lives (accumulated amortisation)	-	2,719,227
	-	**1,366,255**

Statement of Financial Position
Unspent Conditional Grants

As previously stated	-	57,611,656
Correction of misstatement of Department of Transport grant creditor	-	(3,894,943)
	-	**53,716,713**

Notes to the Financial Statements

Figures in Rand	2014	2013

42. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of Financial Position

	2014	2013
Revenue transactions amounting to R 21,238.58 previously reflected as rental income, was reclassified to a separate line item in the note to other income		
Rental from other facilities	-	21,239
Other income	-	(21,239)
Provisions and Payables have been restated from the prior year to take into account a reclassification of the Long Service Awards, Staff Leave, Staff Bonus and Performance Bonus liabilities as part of Employee Benefit Obligations in terms of GRAP 25:		
Provisions	-	6,523,927
Payables from Exchange Transactions	-	2,784,044
Employee Benefits	-	(9,307,971)
	-	**-**

43. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes, cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2014 and 2013 respectively were as follows:

	Note	2014	2013
Less: Cash and cash equivalents	13	233,715,708	191,648,293
Net debt		(233,715,708)	(191,648,293)
Total equity		3,541,816,046	3,176,107,179
Total capital		**3,308,100,338**	**2,984,458,886**

43. Risk management (continued)

Financial risk management

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

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 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. 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.

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.

Liquidity risk

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

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality’s reputation.

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

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

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2014 and 2013, the municipality’s borrowings at variable rate were denominated in the Rand .

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 investment committee.

Consumer Debtors comprise of a large number of consumers, 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.

43. Risk management (continued)

Credit risk

Credit risk is managed on a group basis.

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

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

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

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

Financial instrument	2014	2013
Cash and cash equivalents	233,713,508	191,648,293
Investments	129,043,449	116,732,579
Other receivables from non exchange transactions	50,482,625	190,956,768

44. Events after the reporting date

The following events having a financial implication and requiring disclosure in the annual financial statements occurred subsequent to 30 June 2014:

- In terms of the Service Level Agreements entered into with the eight Local Municipalities, the operations relating to Water and Sanitation Services will be transferred to the District Municipality, effective 01 July 2014. The financial effect of the takeover cannot be reliably estimated at reporting date.

45. Unauthorised expenditure

Opening balance	238,239,062	208,934,704
Unauthorised expenditure - current year	14,455,293	238,239,062
Amounts condoned in current year	-	(208,934,704)
	252,694,355	**238,239,062**

The comparative figure for Unauthorised expenditure has been restated from the amount of R 2,301,158 per the prior year Annual Report, to correct an understatement of this figure in the Annual Financial Statements for the financial year ended 30 June 2013.

The unauthorised expenditure for the current year is a result of over-expenditure of budgeted amounts for Vote 6 - Planning & Development of R 9,107,368.23 and Vote 7 - Technical Services of R 5,347,924.97. The reasons for the variances are as follows:

**Vote 6 - Planning & Development: Over-expenditure is attributable to unforeseen expenditure on the IDP Programmes.

**Vote 7 - Technical Services: Over-expenditure is attributable to the roll-over amount for the Water Services Operating Grant not being taken into account during the budgeting process, as the roll-over amount was incorrectly linked to the Equitable Share Programmes votes.

Notes to the Financial Statements

Figures in Rand	2014	2013

46. Fruitless and wasteful expenditure

Opening balance	1,234,270	872,683
Fruitless and wasteful expenditure - current year	125,135	361,587
Amounts condoned in current year	-	-
	1,359,405	**1,234,270**

The comparative figure for Fruitless and Wasteful expenditure has been restated from the amount of R 273,420 per the prior year Annual Report, to correct an understatement of this figure in the Annual Financial Statements for the financial year ended 30 June 2013.

47. Irregular expenditure

Opening balance	848,007,418	551,965,191
Add: Irregular Expenditure - current year	132,406,585	296,042,227
	980,414,003	**848,007,418**

Analysis of expenditure awaiting condonation per age classification

Current year	132,406,585	296,042,227
Prior years	848,007,418	551,965,191
	980,414,003	**848,007,418**

Details of irregular expenditure – current year

Suppliers not registered on District Municipality’s Supplier Database	199,843
Request for quotation was not advertised for at least seven (7) days on the municipality's website	6,528,531
Transactions where a deviation occurred, but the deviation does not constitute an emergency, nor was it impractical/impossible to obtain 3 quotations	437,021
Suppliers quoted at the same price. The criteria used to select one supplier over the other could not be established	478,060
Tax Clearance Certificate not attached	243,169
Transaction exceeds three-quote-threshhold, however was not taken to tender	264,000
Tender documentation required from the selected bidder not obtained	124,255,961
	132,406,585

The comparative figure for Irregular expenditure has been restated from the prior year figure of R 960,949 per the prior year Annual Report, to correct an understatement of this figure in the Annual Financial Statements for the financial year ended 30 June 2013.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Current year subscription / fee	1,368,374	1,056,648
Amount paid - current year	(1,368,374)	(1,056,648)
	-	**-**

Notes to the Financial Statements

Figures in Rand	2014	2013

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

Audit fees

Current year subscription / fee	5,178,713	4,775,008
Amount paid - current year	(5,178,713)	(4,775,008)
	-	-

PAYE and UIF

Current year subscription / fee	22,689,330	16,929,485
Amount paid - current year	(22,689,330)	(16,929,485)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	6,832,858	9,565,999
Amount paid - current year	(6,832,858)	(9,565,999)
	-	-

VAT

VAT receivable	26,685,825	49,028,726

VAT output payables and VAT input receivables are shown in note 12.

All VAT returns have been submitted by the due date throughout the year based on a 1 month, category C tax period, i.e. submission is due on the last day of each of the twelve months of the calendar year.

The Municipality uses the Payments Basis to account for the tax payable.

49. Budget differences

Explanations for differences between budget and actual amounts

1. Service Charges - under-recovery: The entire budgeted amount was anticipated to be recovered from Water Services Providers, but was never realised.

2. Rental of Facilities and Equipment - over-recovery: Receipts were anticipated to be minimal and therefore not considered during the budgeting process.

3. Other income - over-recovery: The over-recovery is mainly attributable to income receivable from VAT on Infrastructure grant funds and this was not taken into account during the budgeting process.

4. Interest received - Investment - over-recovery: The municipality invested more funds than anticipated during the financial year and therefore earned more interest on investments.

5. Government Grants and Subsidies - over-recovery: Additional funding was received for the Municipal Infrastructure Grant during than anticipated as per set allocations.

6. Personnel - under-spending: Under-expenditure arose due to certain vacant positions being filled late or not filled at all.

7. Remuneration of Councillors - under-spending: The under-expenditure is due to an smaller increase in allowances than anticipated.

8. Depreciation and Amortisation - over-spending: The over-expenditure is attributable to the re-assessment of useful lives of assets which resulted in higher depreciation and amortisation charges than anticipated.

Figures in Rand	2014	2013

49. Budget differences (continued)

9. Finance costs - over-spending: The finance costs arose due to the late payments of creditor accounts which was not anticipated.

10. Debt impairment - under-spending: The impairment of other receivables was not taken into consideration during the budgeting process.

11. Repairs and Maintenance - under-spending: The under-expenditure occurred due to planned repairs to office buildings which did not take place during the financial year.

12. Bulk Purchases - over-spending: The demand for water purchases were higher than anticipated.

13. Contracted Services - under-spending: The planned appointment of service providers only materialised during the latter part of the financial year and therefore resulted in under-expenditure.

14. Grants and subsidies paid - over-spending: Over-expenditure is mainly attributable to Equitable Share Programs and certain amounts linked to votes under Grants and Subsisdies paid are linked to General Expenses during the budgeting process.

15. General Expenses - under-spending: The variance is due to a general decrease in expenditure, in comparison with the prior financial year.

The Municipality considers variances in excess of R 10,000 to be material and the explanations for variances between budgeted and actual amounts above have been provided for all items where variances exceed R 10,000.

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ, however is still considered to be prepared on a comparable as the budget includes line items of an accrual/non-cash nature. The financial statements for the municipality are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements differ from the budget, which is approved on the cash basis and also using a classification based on the nature of expenses.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in overall budget parameters for certain line items within the Statement of Financial Position.

50. Non-compliance with the Municipal Finance Management Act

A summary of the Municipality's pertinent non-compliance with the MFMA are as follows:

- Section 15 of MFMA - Appropriation of funds for expenditure: Expenditure was incurred in excess within the limits of the amounts appropriated for the different votes in an approved budget.
- Section 62 of MFMA - General financial management functions: The accounting officer did not take all reasonable steps to ensure the appropriate management of expenditure of the Municipality.
- Section 32(4) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not promptly inform the mayor, the MEC for local government in the province and the Auditor-General of any unauthorised, irregular or fruitless and wasteful expenditure incurred.
- Section 32(2) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not take the necessary steps to recover Unauthorised, irregular or fruitless and wasteful expenditure.
- Section 65 of MFMA - Expenditure management: The accounting officer did not take all reasonable steps to ensure that the financial administration of the Municipality is appropriately managed.
- Section 122 of MFMA - Preparation of financial statements: The Municipality did not prepare Annual Financial Statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.
- Section 63 of MFMA - Asset and liability management: The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register.

50. Non-compliance with the Municipal Finance Management Act (continued)

- Section 115 of MFMA - Supply Chain Management - Implementation of the system: The accounting officer did not take all reasonable steps to implement the supply chain management policy of the municipality and to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of irregular practices.