



Amathole District Municipality

Annual Financial Statements
for the year ended 30 June 2014

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Mayoral committee

Executive Mayor

Konza, N

Councillors

Janda, S (Speaker)

Mtintsilana, S (Chief Whip)

Papu, M (Corporate Services Human Resources & Admin)

Madikane, E (Community Safety)

Memani, M (Land and Housing)

Finca, P (Local Economic Development)

Genu, S (Strategic Planning)

Jacobs, L.E.V (Budget and Treasury)

Bikisha, M (Water and Sanitation)

Melitafa, B (Engineering and Infrastructure)

Billie, P (Community Services)

Kubukeli, T (Community Liason and Participation)

Grading and jurisdiction of the District Municipality

Grade 7

- Integrated development planning for the district municipality as a whole including a framework for all municipalities in the area.
- Potable water supply system
- Domestic waste-water and sewerage disposal systems
- Solid waste disposal sites, in so far as it relates to:
 - determining a waste disposal strategy
 - regulation of waste disposal
- Municipal Health Services
- Fire fighting services serving the area
- Promotion of local tourism area

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

- The receipt and allocation of grants

The Amathole District Municipality is located in the mid-section of the Eastern Cape Province along the coastline of the Indian Ocean, encompassing the former homeland areas of the Ciskei and Transkei, as well as the former Cape

Provincial Administration areas

The Amathole District Municipality's demarcated area is made up of seven (7) local municipalities namely:

Amahlathi Municipality;
Great Kei Municipality
Mbhashe Municipality
Mnquma Municipality
Ngqushwa Municipality
Nkonkobe Municipality
Nxuba Municipality

LEGISLATION

The ADM complies with the following:

Municipal Finance Management Act 56 of 2003
Municipal Demarcation Act 27 of 1998
Municipal Structures Act 117 of 1998,
Laws Amendment Act 51 of 2002
Constitution of the Republic of South Africa Act No.108 as amended,
Municipal Systems Act 32 of 2000
Water Service Act
Basic Conditions of Employment Act 75 of 1997,
Labour Relations Act 66 of 1995,
Remuneration of the Public Office Bearers Act 20 of 1998,
Division of Revenue Act
Housing Act 107 of 1997,
Local government transitions Act 209 of 1993,
Local government transitions Act Second Amendment Act 97 of 1996
Local government: Municipal Planning and Performance Management Regulations 2001,
Local government: Municipal Performance Regulations for Municipal Managers and managers directly accountable to Municipal Managers 2006,
Supply Chain Management Regulations 2005,
Value Added Tax Act 89 of 1991, and
Unemployment Insurance Act 30 of 1996

Chief Financial Officer	N Soga
Accounting Officer	C Magwangqana
Business address	40 Cambridge Street East London 5200
Postal address	PO BOX 320 East London 5200
Bankers	Standard Bank, East London ABSA Bank, East London
Auditors	Auditor General of South Africa

Amathole District Municipality

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General Information

Councillors

Baleni, X (Mbashe)
Bangani, L (Great Kei)
Benya, N (Mbashe)
Tyali, C (PR)
Dwanya, T (Nkonkobe)
Dyani, N (Great Kei)
Dyani, T (Mquma)
Jali, S (Ngqushwa)
Macakela, S (Nkonkobe)
Magatya, N (Mbashe)
Malghas, E (PR)
Mentoor, B (Nxuba)
Mgidlana, N (PR)
Mkosana, N (Amahlathi)
Mkosana, V (PR)
Ntanga, T (Mquma)
Ndabazonke, N (Ngqushwa)
Ngqongolo, G (Mquma)
Nonjaca, N (Mbashe)
Nkunkuma, N (Amahlathi)
Plaatjie, N (Mquma)
Qaba, P (Amahlathi)
Rawana, M (Nkonkobe)
Roji, X (Amahlathi)
Ngaye, T (Nkonkobe)
Sinyongo, L (Nkonkobe)
Siwisa, M (Ngqushwa)
Solontsi, Z (Mquma)
Tyetyana, M (Mbashe)
Tyala, N (Mquma)
Manxila, T (Mquma)
Ward, W (PR)
Kabane, Z (PR - AMPAC Chairperson)
Nyalambisa, N (PR)
Skelenge, NH (Mquma Representative)

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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

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Abbreviations

NT	National Treasury
PT	Eastern Cape Provincial Treasury
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
DWA	Department Of Water Affairs
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ADM	Amathole District Municipality
AEDA	Amathole Economic Development Agency (Proprietary) Limited
EPWP	Expanded Public Works Programme

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual 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 annual financial statements and was given unrestricted access to all financial records and related data.

The annual 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 annual 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 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

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

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

The annual financial statements set out on pages 6 to 114, which have been prepared on the going concern basis, were approved on the 29th of August 2014 and signed on behalf by:

C Magwangqana
Municipal Manager

N Soga
Chief Financial Officer

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated
Assets			
Current Assets			
Inventories	11	4,371,608	3,982,429
Current investments	8	387,616,947	472,085,202
Receivables from exchange transactions	12	76,253,930	67,157,013
Receivables from non-exchange transactions	13	7,763,149	4,369,106
VAT receivable	14	42,722,951	48,236,546
Current portion of receivables transferred from non current assets	7	3,215	8,522
Cash and cash equivalents	15	116,150,039	191,063,454
		634,881,839	786,902,272
Non-Current Assets			
Investment property	3	69,120,739	69,129,577
Property, plant and equipment	4	3,617,460,450	3,243,497,749
Intangible assets	5	1,142,192	402
Investments in controlled entities	6	1,000	1,000
Non-current receivables	7	1,310,847	999,587
		3,689,035,228	3,313,628,315
Total Assets		4,323,917,067	4,100,530,587
Liabilities			
Current Liabilities			
Finance lease obligation	18	669,829	383,237
Payables from exchange transactions	21	184,511,349	146,237,114
Taxes and transfers payable (non-exchange)	22	5,651,074	5,287,518
Consumer deposits	24	2,114,008	1,943,650
Unspent conditional grants and receipts	19	51,030,246	88,503,680
Provisions	20	8,478,041	3,315,641
		252,454,547	245,670,840
Non-Current Liabilities			
Finance lease obligation	18	297,033	223,126
Operating lease liability	9	324,731	347,614
Employee benefit obligation	10	187,496,157	151,150,269
		188,117,921	151,721,009
Total Liabilities		440,572,468	397,391,849
Net Assets		3,883,344,599	3,703,138,738
Net Assets			
Reserves			
Revaluation Reserves	16	18,665,017	18,665,018
Accumulated surplus		3,864,679,582	3,684,473,720
Total Net Assets		3,883,344,599	3,703,138,738

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated
Revenue			
Revenue from exchange transactions			
Service charges	27	200,458,055	235,211,610
Rental of facilities and equipment	26	396,046	326,333
Interest earned - outstanding receivables	54	31,908,697	23,077,011
Other income	29	8,233,316	4,952,659
Interest received - external investment	35	32,462,037	36,605,289
Total revenue from exchange transactions		273,458,151	300,172,902
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	28	1,124,974,361	1,171,548,580
Own revenue - VAT on MIG	25	46,561,234	61,193,497
Other revenue - VAT other grants	25	7,117,523	12,024,322
Actuarial gain on post employment medical aid obligation	25	-	6,563,608
Total revenue from non-exchange transactions		1,178,653,118	1,251,330,007
Total revenue	25	1,452,111,269	1,551,502,909
Expenditure			
Employee related costs	32	(464,158,302)	(372,611,183)
Remuneration of councillors	33	(12,252,662)	(11,562,552)
Depreciation and amortisation	36	(103,642,298)	(97,385,967)
Finance costs	37	(14,476,675)	(10,944,929)
Debt impairment	34	(116,309,046)	(139,027,009)
Collection costs		(1,707,699)	(2,857,365)
Repairs and maintenance	53	(48,485,952)	(19,927,540)
Bulk purchases	39	(62,048,818)	(51,558,536)
Contracted services	38	(19,263,798)	(29,016,085)
General Expenses	30	(431,615,505)	(372,549,055)
Total expenditure		(1,273,960,755)	(1,107,440,221)
Operating surplus	31	178,150,514	444,062,688
Gain/(Loss) on disposal of assets	55	2,055,352	(1,379,502)
Surplus for the year		180,205,866	442,683,186

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	18,665,018	3,245,815,599	3,264,480,617
Adjustments			
Correction of errors	-	(4,025,065)	(4,025,065)
Balance at 01 July 2012 as restated*	18,665,018	3,241,790,534	3,260,455,552
Changes in net assets			
Surplus for the year	-	442,683,186	442,683,186
Total changes	-	442,683,186	442,683,186
Balance at 01 July 2013	18,665,018	3,684,473,716	3,703,138,734
Changes in net assets			
Surplus for the year	-	180,205,866	180,205,866
Total changes	-	180,205,866	180,205,866
Balance at 30 June 2014	18,665,017	3,864,679,582	3,883,344,599
Note(s)	16		

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated
Cash flows from operating activities			
Receipts			
Service charges		75,052,094	59,239,014
Grants		1,087,500,924	1,090,217,926
Interest income		64,370,734	59,875,923
Rent received		396,046	326,333
Other receipts		58,518,029	84,787,741
		<u>1,285,837,827</u>	<u>1,294,446,937</u>
Payments			
Employee costs		(434,902,675)	(368,597,356)
Suppliers		(519,382,447)	(519,811,697)
Finance costs		(14,476,675)	(10,944,929)
		<u>(968,761,797)</u>	<u>(899,353,982)</u>
Net cash flows from operating activities	40	<u>317,076,030</u>	<u>395,092,955</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(480,230,420)	(549,733,845)
Proceeds from sale of property, plant and equipment	4	4,690,011	680,056
Purchase of other intangible assets	5	(1,142,192)	-
Decrease/(Increase) in current investments		84,468,255	(975,774)
Movement in current portion of non-current receivables		5,307	(1,629)
Increase in non-current receivables		(311,260)	(298,348)
		<u>(392,520,299)</u>	<u>(550,329,540)</u>
Net cash flows from investing activities		<u>(392,520,299)</u>	<u>(550,329,540)</u>
Cash flows from financing activities			
Proceeds from consumer deposits		170,355	170,670
Finance lease payments		360,499	(163,908)
		<u>530,854</u>	<u>6,762</u>
Net cash flows from financing activities		<u>530,854</u>	<u>6,762</u>
Net decrease in cash and cash equivalents		(74,913,415)	(155,229,823)
Cash and cash equivalents at the beginning of the year		191,063,454	346,293,277
Cash and cash equivalents at the end of the year	15	<u>116,150,039</u>	<u>191,063,454</u>

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	235,343,984	(5,672,914)	229,671,070	200,458,055	(29,213,015)	1
Rental of facilities and equipment	276,503	-	276,503	396,046	119,543	2
Interest earned - outstanding receivables	29,318,216	-	29,318,216	31,908,697	2,590,481	
Other income	355,649,620	108,128,939	463,778,559	8,233,316	(455,545,243)	4
Interest received - investment	25,154,772	-	25,154,772	32,462,037	7,307,265	3
Total revenue from exchange transactions	645,743,095	102,456,025	748,199,120	273,458,151	(474,740,969)	
Revenue from non-exchange transactions						
Transfer revenue						
Fines	10,000	-	10,000	-	(10,000)	6
Government grants & subsidies	1,110,694,000	1,707,862	1,112,401,862	1,124,974,361	12,572,499	5
Transfer revenue						
Own revenue - VAT on MIG	-	58,525,281	58,525,281	46,561,234	(11,964,047)	7
Own revenue - VAT other grants	-	-	-	7,117,523	7,117,523	
Total revenue from non-exchange transactions	1,110,704,000	60,233,143	1,170,937,143	1,178,653,118	7,715,975	
Total revenue	1,756,447,095	162,689,168	1,919,136,263	1,452,111,269	(467,024,994)	
Expenditure						
Personnel	(488,525,270)	(16,738,281)	(505,263,551)	(464,158,302)	41,105,249	8
Remuneration of councillors	(14,014,860)	1,654,949	(12,359,911)	(12,252,662)	107,249	
Depreciation and amortisation	(104,174,070)	(37,725,843)	(141,899,913)	(103,642,298)	38,257,615	9
Finance costs	(105,611)	(25,715,279)	(25,820,890)	(14,476,675)	11,344,215	10
Debt impairment	(46,309,045)	(70,020,615)	(116,329,660)	(116,309,046)	20,614	
Collection costs	(3,100,000)	-	(3,100,000)	(1,707,699)	1,392,301	11
Repairs and maintenance	(34,064,640)	(24,338,305)	(58,402,945)	(48,485,952)	9,916,993	12
Bulk purchases	(57,606,145)	(5,129,480)	(62,735,625)	(62,048,818)	686,807	
Contracted Services	(62,517,677)	35,854,554	(26,663,123)	(19,263,798)	7,399,325	13
General Expenses	(422,051,737)	(42,192,395)	(464,244,132)	(431,615,505)	32,628,627	14
Total expenditure	(1,232,469,055)	(184,350,695)	(1,416,819,750)	(1,273,960,755)	142,858,995	
Operating surplus	523,978,040	(21,661,527)	502,316,513	178,150,514	(324,165,999)	
Loss on disposal of assets	-	-	-	2,055,352	2,055,352	15
Surplus before taxation	523,978,040	(21,661,527)	502,316,513	180,205,866	(322,110,647)	
Actual Amount on Comparable	523,978,040	(21,661,527)	502,316,513	180,205,866	(322,110,647)	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	3,774,573	-	3,774,573	4,371,608	597,035	
Current investments	460,000,000	-	460,000,000	387,616,947	(72,383,053)	1
Receivables from exchange transactions	91,051,768	-	91,051,768	76,253,930	(14,797,838)	2
Receivables from non-exchange transactions	-	-	-	7,763,149	7,763,149	3
VAT receivable	34,243,508	-	34,243,508	42,722,951	8,479,443	4
Current portion of receivables transferred from non current assets	3,446	-	3,446	3,215	(231)	
Cash and cash equivalents	539,241,319	-	539,241,319	116,150,039	(423,091,280)	5
	1,128,314,614	-	1,128,314,614	634,881,839	(493,432,775)	
Non-Current Assets						
Investment property	62,639,600	-	62,639,600	69,120,739	6,481,139	
Property, plant and equipment	3,293,882,702	-	3,293,882,702	3,617,460,453	323,577,751	6
Intangible assets	-	-	-	1,142,192	1,142,192	7
Investments in controlled entities	1,000	-	1,000	1,000	-	
Non - current receivables	854,460	-	854,460	1,310,847	456,387	
	3,357,377,762	-	3,357,377,762	3,689,035,231	331,657,469	
Total Assets	4,485,692,376	-	4,485,692,376	4,323,917,070	(161,775,306)	
Liabilities						
Current Liabilities						
Finance lease obligation	437,548	-	437,548	669,829	232,281	
Payables from exchange transactions	102,473,517	-	102,473,517	184,511,349	82,037,832	8
Taxes and transfers payable (non-exchange)	-	-	-	5,651,074	5,651,074	
Consumer deposits	1,981,483	-	1,981,483	2,114,008	132,525	
Unspent conditional grants and receipts	205,215,416	-	205,215,416	51,030,246	(154,185,170)	9
Provisions	1,117,724	-	1,117,724	8,478,041	7,360,317	10
	311,225,688	-	311,225,688	252,454,547	(58,771,141)	
Non-Current Liabilities						
Finance lease obligation	298,561	-	298,561	297,033	(1,528)	
Operating lease liability	290,216	-	290,216	324,731	34,515	
Employee benefit obligation	147,494,073	-	147,494,073	187,496,157	40,002,084	11
Provisions	13,111,357	-	13,111,357	-	(13,111,357)	
	161,194,207	-	161,194,207	188,117,921	26,923,714	
Total Liabilities	472,419,895	-	472,419,895	440,572,468	(31,847,427)	
Net Assets	4,013,272,481	-	4,013,272,481	3,883,344,602	(129,927,879)	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	124,870,075	-	124,870,075	18,665,017	(106,205,058)	
Accumulated surplus	3,888,402,406	-	3,888,402,406	3,864,679,588	(23,722,818)	
Total Net Assets	4,013,272,481	-	4,013,272,481	3,883,344,605	(129,927,876)	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Service charges	583,405,279	56,654,220	640,059,499	84,952,235	(555,107,264)	1
Grants	641,196,000	4,822,576	646,018,576	969,297,641	323,279,065	1
Interest income	54,472,988	-	54,472,988	64,372,092	9,899,104	1
Rent received	-	-	-	388,062	388,062	1
Other receipts	-	-	-	49,486,505	49,486,505	1
Government capital	480,998,000	(3,114,714)	477,883,286	-	(477,883,286)	1
	1,760,072,267	58,362,082	1,818,434,349	1,168,496,535	(649,937,814)	
Payments						
Employee costs	(1,211,926,206)	(56,561,872)	(1,268,488,078)	(436,152,695)	832,335,383	1
Suppliers	-	-	-	(490,165,604)	(490,165,604)	1
Finance costs	(105,611)	(25,715,279)	(25,820,890)	(13,184,080)	12,636,810	1
Other payments	(5,818,900)	-	(5,818,900)	-	5,818,900	1
	(1,217,850,717)	(82,277,151)	(1,300,127,868)	(939,502,379)	360,625,489	
Net cash flows from operating activities	542,221,550	(23,915,069)	518,306,481	228,994,156	(289,312,325)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(543,221,550)	33,882,044	(509,339,506)	(390,164,014)	119,175,492	2
Proceeds from sale of property, plant and equipment	-	-	-	2,003,708	2,003,708	2
Decrease in current investments	-	-	-	84,468,255	84,468,255	2
Movement in current portion of non current receivables	-	-	-	5,307	5,307	2
Increase in non current receivables	-	-	-	(311,260)	(311,260)	2
Net cash flows from investing activities	(543,221,550)	33,882,044	(509,339,506)	(303,998,004)	205,341,502	
Cash flows from financing activities						
Finance lease payments	-	-	-	(79,920)	(79,920)	
Proceeds from consumer deposits	-	-	-	170,358	170,358	
Net cash flows from financing activities	-	-	-	90,438	90,438	
Net increase/(decrease) in cash and cash equivalents	(1,000,000)	9,966,975	8,966,975	(74,913,410)	(83,880,385)	
Cash and cash equivalents at the beginning of the year	374,136,406	-	374,136,406	191,063,454	(183,072,952)	
Cash and cash equivalents at the end of the year	373,136,406	9,966,975	383,103,381	116,150,044	(266,953,337)	

Amathole District Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Service charges	240,523,622	-	240,523,622	-	-	240,523,622	200,458,055	-	(40,065,567)	83 %	83 %
Investment revenue	25,154,772	-	25,154,772	-	-	25,154,772	32,462,037	-	7,307,265	129 %	129 %
Transfers recognised - operational	639,696,000	4,822,576	644,518,576	-	-	644,518,576	665,018,800	-	20,500,224	103 %	104 %
Other own revenue	385,254,339	166,654,220	551,908,559	-	-	551,908,559	96,272,168	-	(455,636,391)	17 %	25 %
Total revenue (excluding capital transfers and contributions)	1,290,628,733	171,476,796	1,462,105,529	-	-	1,462,105,529	994,211,060	-	(467,894,469)	68 %	77 %
Employee costs	(488,525,270)	(7,539,628)	(496,064,898)	-	(9,198,653)	(505,263,551)	(464,158,302)	-	41,105,249	92 %	95 %
Remuneration of councillors	(14,014,860)	-	(14,014,860)	-	1,654,949	(12,359,911)	(12,252,662)	-	107,249	99 %	87 %
Debt impairment	(46,309,045)	(70,000,000)	(116,309,045)	-	-	(116,309,045)	(116,309,046)	-	(1)	100 %	251 %
Depreciation and asset impairment	(104,174,070)	(40,000,000)	(144,174,070)	-	-	(144,174,070)	(103,642,298)	-	40,531,772	72 %	99 %
Finance charges	(105,611)	(12,650,000)	(12,755,611)	-	(13,065,279)	(25,820,890)	(14,476,675)	-	11,344,215	56 %	13,708 %
Materials and bulk purchases	(57,606,145)	-	(57,606,145)	-	(5,129,480)	(62,735,625)	(62,048,818)	-	686,807	99 %	108 %
Transfers and grants	(4,318,900)	4,318,900	-	-	-	-	-	-	-	DIV/0 %	- %
Other expenditure	(522,594,792)	(69,478,428)	(592,073,220)	-	28,810,468	(563,262,752)	(501,072,954)	-	62,189,798	89 %	96 %
Total expenditure	(1,237,648,693)	(195,349,156)	(1,432,997,849)	-	3,072,005	(1,429,925,844)	(1,273,960,755)	-	155,965,089	89 %	103 %
Surplus/(Deficit)	52,980,040	(23,872,360)	29,107,680	-	-	32,179,685	(279,749,695)	-	(311,929,380)	(869)%	(528)%

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Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	470,998,000	(3,114,714)	467,883,286	-		467,883,286	459,955,561		(7,927,725)	98 %	98 %
Surplus (Deficit) after capital transfers and contributions	523,978,040	(26,987,074)	496,990,966	-		500,062,971	180,205,866		(319,857,105)	36 %	34 %
Surplus/(Deficit) for the year	523,978,040	(26,987,074)	496,990,966	-		500,062,971	180,205,866		(319,857,105)	36 %	34 %
Capital expenditure and funds sources											
Total capital expenditure	523,978,058	(26,987,074)	496,990,984	-		496,990,984	599,429,767		102,438,783	121 %	114 %
Cash flows											
Net cash from (used) operating	542,221,550	(23,915,069)	518,306,481	-		518,306,481	317,076,030		(201,230,451)	61 %	58 %
Net cash from (used) investing	(543,221,550)	33,882,044	(509,339,506)	-		(509,339,506)	(392,520,299)		116,819,207	77 %	72 %
Net cash from (used) financing	-	-	-	-		-	530,854		530,854	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	(1,000,000)	9,966,975	8,966,975	-		8,966,975	(74,913,415)		(83,880,390)	(835)%	7,491 %
Cash and cash equivalents at the beginning of the year	374,136,406	-	374,136,406	-		374,136,406	191,063,454		(183,072,952)	51 %	51 %
Cash and cash equivalents at year end	373,136,406	9,966,975	383,103,381	-		383,103,381	116,150,039		266,953,342	30 %	31 %

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Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2013				
Financial Performance				
Service charges				235,211,610
Investment revenue				36,605,289
Transfers recognised - operational				636,996,655
Other own revenue				108,137,430
Total revenue (excluding capital transfers and contributions)				1,016,950,984
Employee costs	-	-	-	(372,611,183)
Remuneration of councillors	-	-	-	(11,562,552)
Debt impairment	74,803,044	74,803,044	-	(139,027,009)
Depreciation and amortisation expense	6,799,817	6,799,817	-	(97,385,967)
Finance charges	10,779,100	10,779,100	-	(10,944,929)
Materials and bulk purchases	-	-	-	(51,558,536)
Repairs and maintenance	-	-	-	(19,927,540)
General expenses	-	-	-	(405,627,910)
Total expenditure	92,381,961	92,381,961		-(1,108,645,626)
Surplus/(Deficit)				(91,694,642)
Transfers recognised - capital				534,551,925
Surplus (Deficit) after capital transfers and contributions				442,857,283
Surplus/(Deficit) for the year				442,857,283

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Capital expenditure and funds sources				
Total capital expenditure				-
Sources of capital funds				
Transfers recognised - capital				459,560,439
Internally generated funds				52,613,622
Total sources of capital funds				512,174,061
Cash flows				
Net cash from (used) operating				395,092,955
Net cash from (used) investing				(550,329,540)
Net cash from (used) financing				6,762
Net increase/(decrease) in cash and cash equivalents				(155,229,823)
Cash and cash equivalents at the beginning of the year				346,293,277
Cash and cash equivalents at year end				191,063,454

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1. Basis of presentation

The annual 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 annual 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance GRAP 3 on Accounting Policies, Changes in Estimates and Errors as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

These accounting policies are consistent with the previous period, unless specified otherwise.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The amounts in the annual financial statements are rounded to the nearest rand.

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

In the process of applying the municipality's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have a significant effect on the amounts recognised in the financial statements:

Judgements
In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

Pension and other post - employment benefits

The cost of defined benefit pension plans, other employment medical benefits and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

For key actuarial assumptions, refer to Note 10 "Post-employment benefits".

Operating lease commitments - Municipality as lesser

The Municipality has entered into commercial property leases on its investment property portfolio. The municipality has determined that it retains all the significant risks and rewards of ownership of these properties and thus accounts for them as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the municipality's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

Infrastructure assets

The determination of the fair value of the water infrastructure assets is based upon assumptions and professional judgement applied by consulting engineers using best engineering practice and industry norms and standards.

The following assumptions have been made in the compilation of the low data confidence infrastructure asset register:

- The construction year is estimated using sources in the following order of precedence: available technical records, interviewing of operations staff, comparison with adjacent infrastructure. When the date of acquisition is not known and the construction year is estimated, the acquisition date is assumed to be on the 1st day of January in the year of construction
- The consumption of the benefits of infrastructure assets are predominantly uniform over the life of the assets.
- The depreciation is therefore assumed to be straight line for all infrastructure assets.
- The residual value of all civil infrastructure assets is negligible as there is no open market for the materials used in civil infrastructure and the realizable value is very small. The scrap value of mechanical and electrical plant is also negligible.
- The Remaining Useful Life was estimated using a combination of visual inspection and information on asset performance provided by operations staff. For hidden assets, such as pipes, the assessment is based on the age of the pipes and information on performance from the operations staff.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Fair value determination of investment properties

In determining the fair value of investment property and property, plant and equipment the municipality applies a valuation methodology to determine the fair value of the properties based on any one of, or a combination of the following factors:

- The market related selling price of the property; or
- The market related rental that can be earned for the property; or
- The market related selling price of similar properties in the area; or
- The rentals currently or previously earned by The property.

Inventory - Water Stock

The estimation of the water stock in the reservoirs and pipelines is based on an assumption of the network reticulation capacity at year end. Any existing drought conditions are also taken into consideration where applicable.

The water stock on hand has been estimated using engineering best practice and industry norms and standards.

Impairments of non-financial assets

In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions and contingent liabilities

Management's judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. Provisions are discounted where the effect of discounting is material.

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.

1.4 Investment property

Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Investment property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The cost of day to day servicing of investment property is recognised in the Statement of Financial Performance as incurred.

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated. Investment properties are written down as a result of impairment, where considered necessary. Depreciation begins when the asset is available for use. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Investment property includes lands held with an indefinite use. This land is recognised at fair value on the date of recognition.

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

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

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

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each financial year-end.

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.4 Investment property (continued)

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

Impairments

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property 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.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

Subsequent measurement

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Land and Buildings is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

When an item of land and buildings is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of land and buildings is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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
Land	Indefinite Life
Buildings	30 years
Furniture and fittings	7 to 10 years
Motor vehicles	
• Vehicles	5 years
• Specialised vehicles	3 to 20 years
Office equipment	3 to 7 years
IT equipment	3 to 5 years
Infrastructure	
• Roads and Paving	10 to 30 years
• Sewerage Mains and Purification Works	15 to 20 years
• Water Supply and Reticulation	5 to 30 years
Community	
• Libraries	30 years
• Buildings	30 years
• Community Centres	30 years
• Recreational Facilities	20 years
• Parks and Gardens	30 years
Other property, plant and equipment	
• Specialised Plant and Equipment	5 to 15 years
• Emergency and Medical Equipment	5 to 15 years

Amathole District Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

Ancillary fleet equipment and security

• Security Equipment	3 to 5 years
Bins and containers	5 to 10 years
Other items	2 to 5 years
Leased Assets	3 to 5 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.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

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. Depreciation of an asset commences when the asset is ready for its use as intended by management. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where appropriate, the term of the relevant lease, and are recognised in the statement of financial performance.

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.

Impairments

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), its written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

1.6 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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.6 Intangible assets (continued)

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

Intangible assets are initially recognised at cost.

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.

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.

Subsequent Measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments.

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the statement of financial performance under expenses consistent with the function of the intangible asset.

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

Item	Useful life
Computer software	3 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Amortisation shall commence when the asset is available for the intended use.

Amortisation of the asset begins when the development is complete and the asset is available for use.

The amortisation period, the amortisation method and the residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

the residual value of intangible assets is estimated to be nil.

Impairments

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset maybe impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. The municipality does not hold any intangibles with indefinite useful lives.

Intangible assets are derecognised:

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

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

Amathole District Municipality

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Accounting Policies

1.7 Investments in controlled entities

Subsidiaries are all controlled entities over which the municipality has ownership control or effective control to govern the financial and operating policies of such control entities so as to benefit from its activities.

Controlled entities are fully consolidated from the date on which control is transferred to the Municipality, and are carried at cost. Investments in municipal entities under the ownership control of the Municipality are carried at cost. Separate consolidated financial statements are prepared to account for the Municipality's share of net assets and post acquisition results of these investments.

The municipality commences accounting for an investment in a subsidiary from the date that control exists and discontinues the application when it no longer has control over the subsidiary.

1.8 Financial instruments

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

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

A concessionary loan is a loan granted to or received by a municipality 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 a municipality's statement of financial position.

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

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

A financial asset is:

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

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

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

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

Amathole District Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

Classification

The municipality 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
Non-current receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost

The municipality 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
Trade payables	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost

Amathole District Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Amathole District Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

The 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.

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.

Offsetting

The municipality does not offset a financial asset and a financial liability unless a legally enforceable rights to set off the recognised amounts, currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Gains and losses

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

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

Impairment of financial assets

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

Financial assets measured at amortised cost:

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Accounting Policies

1.8 Financial instruments (continued)

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 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 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.

Receivables

Receivables are classified as financial assets at amortised cost less provision for impairment. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivables is impaired. Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the necessary delegated authority. Impairments are determined by discounting expected future cash flows to their present value. Amounts receivable within 12 months from the date of reporting are classified as current. An impairment of receivables is accounted for by reducing the carrying amount of receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance. Interest is charged on overdue amounts.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

Financial liabilities

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

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

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Financial instruments (continued)

Presentation

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

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

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

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

Policies relating to specific financial instruments

Investment at amortised cost

Investments, which include [listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks] are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

Investment at cost

Investment at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account. Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

1.9 VAT

VAT

The municipality accounts for value added tax on the payments basis.

Amathole District Municipality

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Accounting Policies

1.10 Leases

Finance leases -municipality as a lessee

Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality through the lease agreement. Assets subject to finance to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Asset subject to operating leases, i.e those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Assets subject to a finance lease, as recognised in the statement of financial position, are measured (at initial recognition) at the lower of the fair value of the assets and the present value of the of the future minimum lease payments.

Subsequent to initial recognition these capitalised assets are depreciated over the contract term.

The finance lease liability recognised at initial recognition is measured at the present value of the future minimum lease payments. Subsequent to initial recognition this liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

The lease expense recognised for operating leases is charged to the Statement of Financial Performance on a straight - line basis over the term of the relevant lease. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease asset) or lease payments payable (operation lease liability) as the case may be. This resulting asset and / or liability is measured as the undiscounted difference between the straight -line lease payments and the contractual lease payments.

Derecognition

The finance lease liabilities are derecognised when the municipality's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the municipality no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the municipality's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the municipality no longer anticipates economic benefits to flow from the asset.

Subsequent measurement

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Amathole District Municipality

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Accounting Policies

1.10 Leases (continued)

Operating leases - municipality as a lessor

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

Recognition

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e the straight-line lease payments are more than the contractual lease payments) The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Derecognition

Operating lease liabilities are derecognised when the municipality's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the municipality's right to the underlying cash flows expires or the municipality no longer expects economic benefits to flow from the operating lease asset.

Operating leases - municipality as a 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. The liability or asset is not discounted. Any contingent rents are expensed in the period they are incurred.

1.11 Inventories

Initial recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Amathole District Municipality

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Accounting Policies

1.11 Inventories (continued)

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

The basis of determining cost is the first-in-first-out (FIFO) method.

Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Housing development inventory is measured at cost on the first-in, first-out basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs. The carrying amount of these inventories held for distribution is recognised as an expense when beneficiaries take occupation of the houses.

Housing development funding received is recognised as revenue and expenditure on the Statement of Financial Performance to the extent that the Municipality has complied with any of the criteria, obligations or conditions of the grant.

The cost of water purchased and own water not yet sold in the Statement of financial position comprises the purchase price, import duties, and other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase. The estimation of the water stock in the reservoirs and pipelines is based on an assumption of the water reticulation network capacity at year end.

Derecognition

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset

1.12 Impairment of cash-generating assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash generating assets.

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset in order to determine the extent of the impairment loss (if any).

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalue asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

Amathole District Municipality

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Amathole District Municipality

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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1.12 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.

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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Accounting Policies

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.14 Employee benefits

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

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

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

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

Amathole District Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are 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 entity that employs the employees concerned.

Multi-employer plans

The municipality classifies a multi-employer plan plans as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Amathole District Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Amathole District Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

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Accounting Policies

1.14 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits 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. According to the rules of the medical aid funds, with which

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Medical Aid:Continued Members

The municipality provides post retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the municipality for the remaining 70%. Assumption about the medical costs take into account estimated future changes in cost medical services, resulting from both inflation and specific changes in medical costs. Actuaries are used to determine the obligation on an annual basis. The actuarial gain or loss is recognised in surplus or deficit.

Other Long Term Employee Benefits

The municipality provides long-term incentives to eligible employees, payable on completion of years of employment. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method has been used to value the obligation. Actuarial gains and losses on long term incentives are accounted for in surplus or deficit. The municipality offers employees long service awards for every five years of services completed, from five years of service to 45 years of service, inclusive.

1.15 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.

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.

Amathole District Municipality

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Accounting Policies

1.15 Provisions and contingencies (continued)

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Gains from the expected disposal of assets are not taken into account in measuring a provision.

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

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed unless the possibilities of outflow resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefit is probable.

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

Service income is recognised on an invoice basis. Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. The adjustments are recognised as revenue in the invoicing period.

Revenue arising from consumption of water and sanitation in the month of June is fully accounted for whether invoiced or not. Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered. Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from the council and are levied monthly. Revenue arising from fire services is based on set basic tariffs

Interest, rentals and agency services

Interest are recognised in the Statement of Financial Performance on a time proportionate basis, which takes into account the effective yield on the investment.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Amathole District Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Grants transferred and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable.

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.

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.

Grants, transfers and donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria, conditions and obligations embodied in the agreement. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional and funds are invested until utilised. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

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.

Amathole District Municipality

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Accounting Policies

1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.19 Investment income

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

1.20 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transactions. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded are expensed.

Transaction in foreign currency are accounted for at the exchange ruling on the date of the transaction.

Gains and losses arising on the translation are dealt with in the Statement of Financial Performance in the year in which they occur.

1.21 Surplus/deficit

Gains and Losses.

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented separately from other revenue in the Statement of Financial Performance. Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in the net assets is especially allowed as required by a Standard of GRAP.

1.22 Comparative figures

Current year comparatives (budget)

Budget information in accordance with GRAP 1 and 24, has been provided as separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanations and comments to material differences are provided in the notes to the annual financial statements.

In addition a note has been added to the annual financial statements, for the current financial year only. The annual budget figures included in the annual financial statements are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan (IDP). The approved budget covers the fiscal period from 01/07/2013 to 30/06/2014. The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of budget and actual amounts. Comparative information is not required.

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified and restated. The nature and reason for the reclassification and restatement are disclosed in the Notes to the Annual Financial Statements. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. The presentation and classification of items in the current year is consistent with prior periods.

1.23 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003) Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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Accounting Policies

1.24 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.

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003) the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of municipality'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.

1.26 Use of estimates

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

1.27 Revaluation reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on re-valued amounts, are credited or charged to the Statement of Financial Performance.

The surplus arising from the revaluation of land and buildings is credited directly to equity in the revaluation reserve. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

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

Depreciation on re-valued buildings is charged to surplus or deficit. On the subsequent sale or retirement of a re-valued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated surplus/(deficit).

1.28 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.

1.29 Conditional grants and receipts

Government grants and other grants are recognised as revenue when:

(a) it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,

(b) the amount of the revenue can be measured reliably, and

(c) to the extent that there has been compliance with any restrictions associated with the grant

Income received from conditional grants, donations and subsidies are recognised 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 and funds invested until it is utilised.

Interest earned on the investment is treated in accordance with the grant conditions. If it is payable to the funder it is recorded as part of the creditor.

Income is transferred to the Statement of Financial Performance as revenue to the extent that the criteria, conditions or obligations have been met.

Amathole District Municipality

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Accounting Policies

1.30 Related parties

The municipalities has processes and controls in place to aid in the identification of related parties. 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 jointly control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the municipality any one or more related parties, and those transactions were not within:

- normal supplier and/ or client/ recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual municipality or persons in the same circumstances and;
- terms and conditions within the normal operating parameters established by the reporting municipality's legal mandate;

Further details about those transactions are disclosed in the notes to the financial statements.

The municipality has a related party relationship with its subsidiary Amathole Economic Development Agency (PTY) Ltd t/a ASPIRE. Subsidiaries are entities controlled by the municipality. The existence and effect of potential voting rights that are currently exercisable are convertible without restriction are considered when assessing whether the municipality controls the other entity. Subsidiaries are consolidated from the date that effective control is transferred to the municipality and are no longer consolidated from the date the effective control ceases. Related party transactions are conducted on arms length basis with terms comparable to transactions with third parties.

Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee Members, Municipal Manager and Executive Directors.

1.31 Commitments

A commitment is the municipality's intention to commit to an outflow of its resources embodying economic benefits.

The municipality is committed under obligations for goods and services, which have been contracted for on or before the reporting date, but not yet received or completed at year end.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

Approved and contracted commitments represent expenditure that has been approved and the contract has been awarded at the reporting date.

1.32 Post balance sheet events

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

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

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

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

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 18: Segment Reporting	01 April 2016	No effective date has been determined by the Minister of Finance. The standard requires the identification and aggregation of the operating segments of the municipality in not reportable segments. For each of the reportable segments identified details of the financial performance will be disclosed. The precise impact of this on the financial statements of the municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting.
<ul style="list-style-type: none">GRAP 105: Transfers of functions between entities under common control	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements as the municipality has not had any transfers of functions.
<ul style="list-style-type: none">GRAP 106: Transfers of functions between entities not under common control	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements as the municipality has not had any transfers of functions.
<ul style="list-style-type: none">GRAP 107: Mergers	01 April 2014	It is unlikely that the standard will have a material impact on the annual financial statements as the municipality has not had any mergers.
<ul style="list-style-type: none">GRAP 20: Related parties	01 April 2014	The municipality has based its accounting policy on this standard, hence it is unlikely that the standard will have a material impact on the annual financial statements.

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3. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	69,301,549	(180,810)	69,120,739	69,301,549	(171,972)	69,129,577

Amathole District Municipality

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3. Investment property (continued)

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	69,129,578	(8,838)	69,120,739

Amathole District Municipality

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3. Investment property (continued)

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	69,138,414	(8,838)	69,129,578

Pledged as security

There were no properties pledged as security

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.

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3. Investment property (continued)

Details of valuation

Fair value of the investment property carried at cost:

The municipality applies the cost model to recognize its investment properties

Market valuations were performed by an independent valuer, Mr. Mark Sanan, Professional Associated Valuer, Messrs Kula Valuation Services who are not connected to the entity and have recent experience in location and category of the investment property being valued.

Effective date of valuation December 2009

The fair value of the investment property was determined based on current prices in an active market for similar property in the same location and condition. Although these are investment properties, not all properties have leases attached to these properties, ownership of these properties was confirmed.

The carrying amount of the investment property if carried under the fair value model: 78,126,512 69,842,913

Rental income from investment property 213,640 201,426

Refer to Note 41 for lease commitments

4. 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	4,713,962	-	4,713,962	4,570,962	-	4,570,962
Buildings	33,776,820	(4,260,433)	29,516,387	26,980,710	(4,073,230)	22,907,480
Infrastructure	3,995,034,611	(551,591,364)	3,443,443,247	3,646,999,143	(581,731,850)	3,065,267,293
Community	69,654,147	(1,654,581)	67,999,566	69,654,147	(1,654,581)	67,999,566
Finance leased Assets	4,815,014	(3,325,099)	1,489,915	4,286,361	(3,590,191)	696,170
Other assets	155,886,484	(85,589,111)	70,297,373	147,465,831	(65,409,553)	82,056,278
Total	4,263,881,038	(646,420,588)	3,617,460,450	3,899,957,154	(656,459,405)	3,243,497,749

Amathole District Municipality

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Under construction	Depreciation	Total
Land	4,570,962	143,000	-	-	-	4,713,962
Buildings	22,907,480	6,796,110	-	-	(187,203)	29,516,387
Infrastructure	3,065,267,293	121,156,153	-	339,292,511	(82,272,708)	3,443,443,249
Community	67,999,566	-	-	-	-	67,999,566
Finance leased Assets	696,170	991,257	-	-	(197,511)	1,489,916
Other assets	82,056,279	9,882,662	(282,153)	-	(21,359,415)	70,297,373
	3,243,497,750	138,969,182	(282,153)	339,292,511	(104,016,837)	3,617,460,453

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Under Construction	Depreciation	Total
Land	4,570,962	-	-	-	-	-	4,570,962
Buildings	23,433,890	167,382	-	-	-	(693,792)	22,907,480
Infrastructure	2,695,919,907	189,442,264	(1,313,765)	(61,110,815)	323,501,067	(81,171,365)	3,065,267,293
Community	7,079,151	-	-	61,110,815	-	(190,400)	67,999,566
Finance leased Assets	512,227	345,302	-	-	-	(161,359)	696,170
Other assets	61,684,451	36,116,469	(745,284)	-	-	(14,999,357)	82,056,279
	2,793,200,588	226,071,417	(2,059,049)	-	323,501,067	(97,216,273)	3,243,497,750

Pledged as security

Carrying value of assets were not pledged as security in the year under review.

Capitalised expenditure(excluding borrowing costs)

Land and buildings	6,939,110	167,382
Infrastructure	121,156,153	189,442,264
Finance lease assets	991,257	345,302
Other	9,882,662	36,116,469
	138,969,182	226,071,417

Compensation received for losses on property, plant and equipment – included in operating profit.

Motor vehicles	401,405	667,509
IT equipment	89,430	7,243
Infrastructure	1,329,677	-
	1,820,512	674,752

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4. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Office equipment	1,489,916	696,170
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Revaluations

The effective date of the revaluations was December 2009. Revaluations were performed by independent valuer, Mr Mark Sanan [Member of the Institute of Valuers], of Messrs Kula Valuation Services. Kula Valuation Services are not connected to the municipality.

Land and buildings are re-valued independently every 3-5 years.

The valuation was performed using the depreciated replacement values.

Other information

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)

Other assets	33,269,559	8,127,714
Infrastructure	1,124,114	-
	34,393,673	8,127,714

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Opening balance	752,066,998	752,066,998
Additions/capital expenditure	443,344,548	443,344,548
Transferred to completed items	(120,941,619)	(120,941,619)
	1,074,469,927	1,074,469,927

Reconciliation of Work-in-Progress 2013

	Included within Infrastructure	Total
Opening balance	428,526,489	428,526,489
Additions/capital expenditure	502,112,211	502,112,211
Transfer out for capitalisation	(117,460,887)	(117,460,887)
Transferred to non capitalised expenditure	(61,110,815)	(61,110,815)
	752,066,998	752,066,998

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.

5. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software,licences	3,234,164	(2,091,972)	1,142,192	2,091,972	(2,091,570)	402

Amathole District Municipality

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5. Intangible assets (continued)

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, licences	402	1,142,192	(402)	1,142,192

Reconciliation of intangible assets - 2013

	Opening balance	Total
Computer software, licences	402	402

Pledged as security

Carrying value of intangible assets is not pledged as security.

Restricted title

Carrying value of intangible assets whole title is not restricted

Other information

Fully amortised intangible assets still in use 2,091,972 59,604

6. Investments in controlled entities

Name of company	Held by	% holding 2014	% holding 2013	Carrying amount 2014	Carrying amount 2013
Amathole Economic Development Agency (Pty) Ltd t/a ASPIRE	ADM	100.00 %	100.00 %	1,000	1,000

Investments in Municipal Entity

Amathole Economic Development Agency (Pty) Ltd t/a ASPIRE

Issued Share Capital (1000 ordinary shares of R1,00 each)
100 Percentage owned by Council

The Amathole Economic Development Agency was established 1 September 2005

Place of incorporation: South Africa

Principal activity: To promote local economic development in the Amathole Municipal District Area

The municipality transfers funds to the entity for operating purposes.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013 Restated
7. Non current receivables		
Loans to sport clubs in the District	1,310,847	999,587
Non-current receivables are financial asset which are categorised at amortised cost The fair values of the loans are estimated to approximate their carrying amounts		
Loans to sport clubs in the District		
The loans to the local municipalities represents loans to Winterstrand and Kei Road Sports Club. The loans currently attract interest at 4% per annum and are repayable in 40 instalments over 20 years. These loans will be redeemed by June 2015.		
Non current receivables		
Deposits	1,310,847	997,795
Loans to sport clubs in the District	3,215	10,314
Subtotal	1,314,062	1,008,109
Less: Current portion transferred to current receivables	(3,215)	(8,522)
	1,310,847	999,587
8. Current investments		
At amortised cost		
Call investments deposits	387,616,947	472,085,202
Current assets		
Call investment deposit	387,616,947	472,085,202
Financial Assets at amortised cost		
Financial Assets at armortised cost		
Call Accounts	387,616,947	472,085,202
The following fixed deposit accounts have been classified at amortised cost in accordance with GRAP104: Financial Instruments. Maturity periods are fixed and range between 3 - 12 months. Average rate of return on investments 5.90 % (2013: 5.42%). In accordance with the Municipality's risk management policy deposits are only made with major banks with quality credit standing and limits exposure to any one counter party.		
The Municipal Structures Act, Act 117 of 1998, requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.		
No investments were written off during the year.		
The value of the financial assets disclosed in the above note have not been disclosed as cash and cash equivalents due to its maturity period of 3 months or more as at Statement of Financial Position date.		
9. Operating lease asset (accrual)		
Non-current liabilities	(324,731)	(347,614)
	(324,731)	(347,614)

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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9. Operating lease asset (accrual) (continued)

Operating lease income and expenses have been recognised on a straight line basis over the lease term. The effect of accounting for operating leases on the straight line basis had the above effect.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013 Restated
10. Employee benefit obligation		
Defined contribution plan		
Provision for post employment health care benefits	177,172,143	139,627,863
Provision for ex-gratia benefits	158,901	181,228
Provision for long service benefits	10,165,113	11,341,178
	187,496,157	151,150,269
Statement of Financial Performance		
Current service cost	11,943,918	14,882,698
Interest cost	13,900,021	10,804,592
Actuarial gain recognised	-	(6,563,608)
Actuarial loss recognised	15,507,604	1,035,719
	41,351,543	20,159,401
Post retirement medical aid plan		
The Post Employment Health Care Benefit plan, of which the members are made up as follows:		
- In-service (employee) members	1,229	1,033
- Continuation (retiree, widow / er and orphan) members	487	621
- In-service (employee) non-members	84	88
	1,800	1,742
The unfunded liability in respect of past service has been estimated to be as follows :		
- In-service (employee) members	123,190,637	91,154,486
- In-service (employee) non-members	25,987,679	20,761,146
- Continuation (retiree and widow) members	27,993,827	27,712,231
	177,172,143	139,627,863
The municipality makes monthly contributions for health care arrangements to the following medical aid schemes :		
- Bonitas		
- Hosmed		
- Keyhealth		
- LA Health		
- Samwumed		
- Gems		
On retirement of an employee Council has post retirement obligation to contribute 70% to the medical cost of the employee.		
Reconciliation of assets and liabilities recognised in the balance sheet		
Present value of fund obligations	-	-
Fair value on plan assets	-	-
Present value of unfunded obligations	177,172,143	139,627,863
Present Value of Obligations in excess of Plan Assets	177,172,143	139,627,863
Unrecognised past service cost	-	-

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
10. Employee benefit obligation (continued)		
Unrecognised actuarial gains / (losses)	-	-
Unrecognised transitional liability	-	-
Net liability in Balance Sheet	177,172,143	139,627,863
The municipality has elected to recognise this full increase in this defined benefit liability immediately.		
Reconciliation of present value of fund obligation :		
Present value of fund obligation at the beginning of the year	139,627,863	126,837,070
Current service costs	13,990,344	12,072,461
Expected benefits paid	(2,432,724)	(2,901,553)
Interest cost	13,014,837	10,183,483
Past service costs	-	-
Actuarial gains / (losses)	12,971,823	(6,563,608)
Contributions	-	-
Present value of fund obligation at the end of the year	177,172,143	139,627,853
Total unfunded liability		
	R millions	R millions
In-service members	123,191	91,154
In-service non-members	25,988	20,761
Continuation members	27,994	27,712
All eligible individuals	177,173	139,627
Average liability per individual		
In-service members	100,236	88,242
In-service non-member	53,363	33,432
Continuation members	333,260	314,912
All Eligible Individuals	98,429	80,154

The total liability has increased by 27% (or R37.554 million) since the last valuation. A numerical analysis of the unexpected movement (actuarial gain /loss) is provided in the next section . The main reasons for the actual movement in the liability are listed next .

Amathole District Municipality

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10. Employee benefit obligation (continued)

Eligible employees

The average in-service member liability has increased by 14% over the year due to the following factors :

- an increase in the average future employer contribution and
- a decrease in the net discount rate

These impacts have been offset by :

- a decrease in the average age which means members are further from retirement (more discounting) and more likely to leave before retirement ;and
- a decrease in the average past service.

The total in-service member liability has increased by 35% due to the above, combined with the substantial increase in the number of members.

The average in-service non-member liability has increased by 60% since the last valuation due to a significant increase in the average age, a material increase in the average expected future employer contribution, an increase in the average past service, and a decrease in the net discount rate.

The total in-service non-members liability has increased by 25% due to the above, partially offset by decrease in the number of non-members.

Continuation members

The average continuation member liability has increased by 6% due to an increase in the average employer contribution and a decrease in the net discount rate, partially offset by an increase in the average age.

The total continuation member liability has increased by 1% due to the above, partially offset by a decrease in the number of members.

Analysis of the Unexpected Movement in the Liability

The table below analyses the extent of unexpected increases or decreases in the liability over the valuation period. These unexpected movements (otherwise termed Actuarial and Losses) are separated into three main components: the effect of the change in the basis (assumptions), unexpected increases in the contribution rates; and unpredicted movements in the membership profile.

Actuarial Gains and Losses

Actuarial Gain for the period	12,971,823	-
Contribution to Actuarial Loss:	-	-
Basis Changes : in net discount rate	13,250,182	-
Contribution increases higher than assumed	4,754,868	-
Changes to membership profile different from assumed	(5,033,227)	-
	-	-

Net liability in the balance sheet

Opening balance	139,627,863	126,837,070
Current service cost	13,990,344	12,072,461
Interest cost	13,014,837	10,183,493
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial (gain) / losses	12,971,823	(6,563,608)
Past service costs	-	-
Net periodic cost recognised in profit and loss	39,977,004	15,692,346
Expected employee benefit payments	(2,432,724)	(2,901,553)
Transitional liability recognised outside profit and loss	-	-

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Figures in Rand	2014	2013 Restated		
10. Employee benefit obligation (continued)				
Closing balance	177,172,143	139,627,863		
Current portion of Liability (due in next 12 months)	2,482,836	-		
Non-current portion of Liability	174,689,307	-		
	-	-		
Reconciliation of fair value of plans assets :				
Fair value of plan assets at the beginning of the year	-	-		
Expected return on plan assets	-	-		
Contributions : employer	-	-		
Contributions : employee	-	-		
Actuarial gains	-	-		
Benefits paid	-	-		
	-	-		
Trend information	2014	2013	2012	2011
Present Value of Obligation	177,172,143	139,627,863	126,837,070	98,316,522
Fair value of Plan Assets	-	-	-	-
	177,172,143	139,627,863	126,837,070	98,316,522
Experience adjustments				
Actuarial Gain before changes in Assumptions			-	-
In respect of Present Value of Obligations			12,971,823	(6,563,608)
In respect of Fair Value of Plan Assets			-	-
			12,971,823	(6,563,608)

Sensitivity results

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

- i) A 1% increase and decrease in the assumed rate of health care cost inflation ;
- ii) A 1% increase and decrease in the discount rate;
- iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- iv) A one-year decrease in the assumed average retirement age; and
- v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Sensitivity Analysis on the Accrued Liability

Assumption	Change	In-service	Continuation	Total	Percentage change
Central assumption	-	149,178	27,994	177,172	-
Health care inflation	1 %	175,595	30,428	206,387	16 %
	(1)%	126,233	25,842	152,075	(14)%
Discount Rate	1 %	124,553	25,875	150,428	(15)%
	-1 %	181,239	30,433	211,672	19 %
Post-retirement mortality	-1 yr	153,884	29,300	183,184	3 %
Average retirement age	-1 yr	162,776	27,994	190,769	8 %
Continuation of membership at retirement	(10)%	131,505	27,994	159,499	(10)%
	- %	-	-	-	- %

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10. Employee benefit obligation (continued)

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

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 16% higher.

Sensitivity Analysis on the Current-service and Interest Cost

Assumption	Change	Current Service	Interest Cost	Total	% Change
Average retirement age (59 for males, 56 for females)	-	-	-	-	-
Central assumption	-	13,990,300	13,014,800	27,005,100	-
Health care inflation	1 %	16,893,500	15,152,100	32,045,600	19 %
	(1)%	11,466,900	11,192,900	22,659,800	(16)%
Post-retirement mortality	-1 yr	14,397,100	13,442,600	27,839,700	3 %
Average retirement age	-1 yr	14,933,100	13,988,800	28,921,900	7 %
Withdrawal rate	(50)%	16,413,700	13,937,300	30,351,000	12 %

Key actuarial assumptions used

Assumption	Value p.a	Value p.a
Health Care Cost Inflation rate	8.44 %	8.03 %
Discount Rate	9.31 %	9.40 %
Net effective discount rate	0.80 %	1.27 %
	- %	- %

Assumption	Value	Value
Average retirement age	-	-
Continuation of membership at retirement	95 %	95 %
Proportional assumed married at retirement	95 %	95 %
Proportional eligible non-members joining the scheme by retirement	50 %	50 %
Mortality during employment	SA 85-90	SA 85-90
Mortality post-retirement	PA 90-2	PA 90-1
Withdrawal from service	-	-
	- %	- %

Withdrawal from service	Age	2014 Females	2014 Male	2013 Females	2013 Males
	20	10 %	15 %	10 %	15 %
	30	10 %	7 %	10 %	7 %
	40	7 %	4 %	7 %	4 %
	50	3 %	1 %	3 %	1 %
	> 55	1 %	- %	1 %	- %
	-	- %	- %	- %	- %

Provision for retirement gratuity benefits

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10. Employee benefit obligation (continued)

Employees of the Amathole District Municipality participate in the following benefit funds:

Cape Joint Pension Fund (defined contribution)
 Eastern Cape Gratuity Fund (defined contribution)
 Eastern Cape Municipal Pension Fund (defined contribution)
 Cape Joint Retirement Fund (defined contribution)
 National Fund for Municipal Workers (defined contribution)
 South African Municipal Workers National Provident Fund (defined contribution)
 Government Employees Pension Fund (defined benefit)
 South African Local Authorities Pension Fund (defined benefit)

Multi-employer funds

The actuaries appointed to perform the valuation on the gratuity obligation were of the opinion that the Amathole District Municipality do not have an obligation for this post - employment benefits. Hence the liability is not recognised and disclosure was made to reflect information pertaining to multi-employer funds.

The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of details.

Thus, some of the entities defined benefit plans are not treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contribution plans. These are listed under the defined contribution plan heading as a GRAP 25 Exception.

This is in line with the exemption in GRAP 25 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

The following table reflects information on the defined benefit retirement, pension and provident funds to which councillors and employees belong, and in respect of which there is not sufficient information available to make more detailed disclosures.

The Pension Funds Act requires every pension fund to complete a statutory valuation at least every three years .

Defined contribution (DC) Multi-employer plans

The table below reflects the municipality's contributions paid to the Defined Contribution plans for the year.

Full Name of Multi-Employer Plan	Number of the Municipality's employees belongings to the plan	Amount of contributions paid by the Municipality for the year ending 30 June 2014
Cape Retirement Fund (CRF)	1,375	49,196,767
SAMWU National Provident Fund (SNPF)	161	3,992,602
National Fund for Municipal Workers	12	325,056
Cape Joint Pension Fund	7	163,914
Easter Cape Gratuity Fund	2	27,840
Eastern Cape Municipal Pension Fund	2	72,383
	-	-

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10. Employee benefit obligation (continued)

Defined benefits (DB) Multi-employer plans

Sufficient information is not available in respect of these multi-employer BD plans to enable full DB accounting disclosure because :

- Plan assets are held as one portfolio and not notionally allocated to each participating employer
- Similarly, the plan's financial statements are not constructed separately for each participating employer, but rather in respect of the whole plan including all the participating employers.
- Contribution rates do not usually vary by participating employer .

The table below reflects the municipality's contributions to these Defined Benefit (DB) plans for the year.

Multi-Employer Plan	Number of the Municipality's employees belonging to the plan	Total number of active members per the Plan's most recent valuation report	Amount of contributions paid by the Municipality for the year ending 30 June 2014	Date of most recently available actuarial valuation report	Funding level
GEPF	73	1,235,064	1,503,984	31 March 2012	100.0 %
SALA PF	12	18,009	357,305	01 July 2013	100.0 %
Cape Joint Pension Fund (CJPF)	5	1,222	433,713	30 June 2013	98.1 %
	-	-	-		- %

Key Assumptions Multi-Employer Plan

	Gross discount rate	Salary inflation	Net post-ret discount rate
GEPF	10.70 %	6.70 %	5.80 %
SALA PF	10.75 %	8.00 %	5.75 %
Cape Joint Pension Fund (CJPF)	9.00 %	6.00 %	5.52 %
	- %	- %	- %

Further information for each plan follows below :

GEPF (Government Employees Pension Fund)

The funding level of the GEPF remained at 100% as at the 31 March 2012 valuation date compared with the 100% funding level as at the 31 March 2010. The plan is holding reserves at 5.95% of what would be in line with the long-term funding level per the Board of Trustees adopted GEPF Funding Policy.

This employer contribution rate remains at 16% in respect of the 'Services' employee category and 13% in respect of the 'Others' employee category.

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10. Employee benefit obligation (continued)

Defined contribution plan

SALA PF(South African Local Authorities Pension Fund)

There is a defined contribution section in this Plan (19% of the active membership). The valuation actuary recommended that the prevailing employer contribution rate at 1 July 2012 be maintained at 19.18%. This includes a margin of 2.16% over and above the contribution rate required to fund the Projected Unit Method future service benefits and associated costs. The valuation actuary stated that the margin in the contribution rate remains necessary to build up a solvency reserve.

CJPF (Cape Joint Pension Fund)

The funding level of the CJPF Defined Benefit section was 99.7% as at the 30 June 2013 valuation date compared with a 99.4% funding level as at 30 June 2012. The valuation actuary recommended a total contribution rate of 26.77% which was in excess of the then 23.06% contribution of salaries in the Defined Benefit section.

The valuator further stated that although the Defined Benefit section funding level was slightly below 100% at 30 June 2013, he is confident that the Fund has since returned to sound financial condition. He also put forward that once the Financial Services Board approves the imminent conversion of the Defined Benefit section to a Defined Contribution basis the fund will have achieved an important milestone in ensuring its sound financial management.

Additional text

Provision for Ex-Gratia Benefits

Eligible employees

	Female	Male	Total
Number of Pensioners	2	6	8
Average Annual Pension	2,314	5,886	4,669
Pension - weighted Average Age	74.0	88.3	86.7
	-	-	-

Reconciliation of assets and liabilities recognised in the balance sheet

Total value of liabilities	158,901	181,228
Value of assets	-	-
Unfunded Accrued Liability	158,901	181,228
Unfunded accrued liability	158,901	181,228
Unrecognised actuarial gain	-	-
Unrecognised past service cost	-	-
Net liability in balance sheet	158,901	181,228
Total unfunded liability	158,901	181,228
Average liability per retiree	19,863	20,136
	-	-

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10. Employee benefit obligation (continued)

The average liability has increased by 1% due to an increase in the average annual pension, resulting from the changes in the membership of the pensioners. This effect was partially offset by an increase in the average age of pensioners.

The total liability has decreased by 12% (or R22,327) since the last valuation because there is one fewer pensioner. A number analysis of this movement is provided in the next section.

Analysis of the unexpected movement in the liability

Actuarial Gain for the period	9,440	-
Contribution to Actuarial Loss:	-	-
Basis Changes	(5,823)	-
Changes to membership profile different from assumed	15,264	-
	<u>-</u>	<u>-</u>

Trend Information

Present Value of Obligations	158,901	181,228	196,539
Fair Value of Plan Assets	-	-	-
	<u>158,901</u>	<u>181,228</u>	<u>196,539</u>

Experience adjustments

Actuarial Gain / (Loss) before in Assumptions

In respect of Present Value of Obligations	15,264	22,880	66,013
In respect of Fair Value of Plan Assets	-	-	-
	<u>15,264</u>	<u>22,880</u>	<u>66,013</u>

Experience Adjustments

Present value of fund obligation at the beginning of the year	181,228	196,539
Current service costs	-	-
Interest cost	10,249	9,772
Past service cost	-	-
Actuarial (losses)	9,440	16,934
Expected Benefit payments	(42,017)	(42,017)
	<u>158,900</u>	<u>181,228</u>

Reconciliation of fair value of plan assets :

Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions : employee	-	-
Past service costs	-	-
Actuarial gains / (losses)	-	-
Benefits paid	-	-
Fair value of plan assets at the end of the year	<u>-</u>	<u>-</u>

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10. Employee benefit obligation (continued)		
Current service costs and interest costs		
Total cost	10,249	9,772

There is no Current-service Cost as there are no in-service members eligible for ex-gratia pension benefits. The Interest Cost represents the accrual of interest on the Accrued Liability, allowing for benefit payments, over the corresponding year. This arises because all future ex-gratia benefits are one year closer to payment.

Net liability in the balance sheet

Opening balance	181,228	196,539
Current-service cost	-	-
Interest Cost	10,249	9,772
Expected Return on Plan Assets	-	-
Transitional Liability Recognised	-	-
Actuarial (Gain) / Loss	9,440	16,934
Net Periodic Cost Recognised in Profit and loss	19,689	26,706
Expected Employer Benefit Payments	(42,017)	(42,017)
Transitional Liability Recognised outside P&L	-	-
Closing balance	158,900	181,228
Current portion	39,946	-
Non-current portion	118,955	-
	-	-

Sensitivity analysis on the unfunded accrued liability

Assumption	Change	Liability	% Change
Central assumptions	- %	158,901	- %
Discount rate	1 %	153,535	(3)%
	(1)%	164,724	4 %
Post-retirement mortality	(1)%	166,082	5 %
	- %	-	- %

The table above indicates, for example, that if the discount rate is 1% greater than the long-term assumption made, the liability will be 3% lower .

Sensitivity analysis on the interest cost for year

Assumption	Change	Liability	% Change
Central assumptions	- %	10,249	- %
Discount rate	1 %	11,371	11 %
	(1)%	9,028	(12)%
Post-retirement mortality	(1)%	10,780	5 %
	- %	-	- %

Key actuarial assumptions used

Assumption	Value p.a	Value p.a
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10. Employee benefit obligation (continued)		
Discount Rate	7.38 %	6.38 %
Mortality in retirement	PA(90)-1	PA(90)-1
	- %	- %

Mortality in retirement

Provision for Long Service Benefits

An actuarial valuation has been performed of the municipality's liability for long service benefits relating to long service awards to which employees may become entitled to. The municipality offers employees long service awards for every five years of service completed, from five years of service to 45 years of service, inclusive. This provision is the present value of the total long service awards expected to become payable under the municipality's current arrangements and based on the actuarial assumptions made. The municipality has elected to recognise the provision in full.

Summary of eligible employees	Female	Male	Total
Number of eligible employees	- 728	1,107	1,835
Average annual salary	- 168,503	154,246	159,902
Salary-weighted average age	- 37.3	42.0	40.0
Salary-weighted average past service	- 6.0	7.0	7.0
	-	-	-

Long Service Awards for levels of past service

Description	Completed Service (in years)	Long Service Bonuses (% of Annual Salary)
(5/260+2%) x annual salary	5	3.9 %
(10/260+2%) x annual salary	10	6.8 %
(15/260+2%) x annual salary	15	9.8 %
(15/260+2%) x annual salary	20	10.8 %
	2,530,354,045	11.8 %
	-	- %

In the month that each " Completed Service " milestone is reached, the employee is granted a LSA.

Working days awarded are valued at 1/260 of annual salary per day ([Daily leave is valued as follows: Annual basic salary / (12 months x 4.33 weeks per month x 5 days per week])

Retirement gifts are awarded to all employees who retire at age 65. According to the Municipality, only 3% of employees are expected to receive the gift, since the majority retire before age 65.

The value of the retirement gift used in the last valuation was :

R 1,848 for employees with under twelve years of total service at retirement
R3,462 for employees with twelve or more years of total service at retirement

These values have been assumed to increase by 6.79% since the last valuation. The value of the retirement gift is assumed to increase in line with CPI inflation in the future.

Employee related costs

Current service cost	2,548,555	2,810,237
Interest cost	874,935	611,327
	-	-

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10. Employee benefit obligation (continued)		
i) The Current-service Cost reflects the additional liability that is expected to accrue in respect of in-service members service over the corresponding year.		
ii) The Interest Cost represents the accrual of interest on the Accrued Liability, allowing for benefit vestings, over the corresponding year. This arises because all future LSA benefits are one year closer to payment.		
Provision for long service award liability		
Opening accrued liability	13,461,418	10,811,319
Current service cost	2,548,555	2,810,237
Interest cost	874,935	611,327
Benefit Vestings	(2,120,240)	(1,790,249)
Total annual expense	1,303,250	1,631,315
Actuarial Loss	2,526,341	1,018,785
	17,291,009	13,461,419

Reconciliation of assets and liabilities recognised in the balance sheet

Present value of accrued liability	17,291,009	13,461,419
Fair value of plan assets	-	-
	17,291,009	13,461,419
Unrecognised transitional liability	-	-
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Net liability in Balance sheet	17,291,009	13,461,419

The average liability has increased by 17% due to an increase in the average salary and an increase in average past service, partially offset by an increase in the net discount rate.

The total liability has increased by 25%(or R2,650,100) due to the above combined with the fact that there are 95 more eligible employees than at the last valuation.

The full increase in this liability has been recognised immediately.

Net liability to reflect in balance sheet

Opening balance	13,461,418	10,811,318
Current service costs	2,548,555	2,810,237
Interest cost	874,935	611,327
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial gains recognised in profit and loss	2,526,341	1,018,785
Past service cost	-	-
Net periodic cost recognised in profit and loss	5,949,831	4,440,349
Expected employer benefit vestings	(2,120,240)	(1,790,249)
	17,291,009	13,461,418
Current portion of liability (due in the next 12 months) refer note 20	7,125,896	2,120,240
Non current portion of liability	10,165,113	11,341,178
	-	-
	-	-

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10. Employee benefit obligation (continued)			
Reconciliation of present value of accrued liability			
Present value of accrued liability at the beginning of the year	13,461,418	10,811,318	
Current service costs	2,548,555	2,810,237	
Expected return on plan assets	-	-	
Interest cost	874,935	611,327	
Past service cost	-	-	
Actuarial gains	2,526,341	1,018,785	
Expected employer benefit vestings	(2,120,240)	(1,790,249)	
Closing Balance	17,291,009	13,461,418	
Total unfunded liability	17,291,009	13,461,418	
Average liability per member	9,423	8,730	
	-	-	
Reconciliation of fair value of plan asset			
Fair value of plan assets at the beginning of the year	-	-	
Expected return on plan assets	-	-	
Contributions: employee	-	-	
Past service costs	-	-	
Actuarial gains / (losses)	-	-	
Benefits paid	-	-	
Fair value of plan assets at the end of the year	-	-	
Key actuarial assumptions used			
Financial assumptions			
Discount rate	7.79 %	7.06 %	
General Salary Inflation (long-term)	7.03 %	6.73 %	
Net effective discount rate	0.71 %	0.31 %	
	- %	- %	
Salaries used in the valuation include an assumed increase on 1 July 2014 of 6.79% as per the SALGBC Circular no.3/2014 . The next salary increase was assumed to take place on 1 July 2015.			
Demographic assumption			
Average retirement age		59 male and 56 females	
Mortality during employment		SA 85-90	
Withdrawal from service			
	Age	Rate	
	- Female	Males	
	20	24 % 16 %	
	30	15 % 10 %	
	40	6 % 6 %	
	50	2 % 2 %	
	55	- % - %	
	-	- % - %	
Sensitivity analysis assumption Accrued liability			
	Change	Liability R Millions	% change
Central assumptions	- %	17,291	- %
General salary inflation	1 %	18,250	6 %

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10. Employee benefit obligation (continued)			
	(1)%	16,414	(5)%
Discount Rate	1 %	16,320	(6)%
	(1)%	18,376	6 %
Average retirement age	-2 yrs	15,753	(9)%
	2 yrs	19,010	10 %
Withdrawal rates	(50)%	21,422	24 %
	- %	-	- %

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6% higher.

Current service and interest costs

Assumptions	Change	Current service cost	Interest cost	Total	% change
Central assumptions	- %	2,548,600	874,900	3,423,500	- %
General salary inflation	1 %	2,723,700	929,400	3,653,100	7 %
	(1)%	2,390,100	825,300	3,215,400	(6)%
Average retirement age	-2 yrs	2,343,800	777,100	3,120,900	(9)%
	2 yrs	2,745,400	975,400	3,720,800	9 %
Withdrawal rates	50 %	3,446,900	1,107,600	4,554,500	33 %
	- %	-	-	-	- %

11. Inventories

Housing projects	1,149,355	1,193,370
Consumable stores	520,205	773,813
Water	2,702,048	2,015,246
	4,371,608	3,982,429

Housing Projects

The cost incurred on completed housing units that are occupied by beneficiaries has been transferred to the Statement of Financial Performance. A stock count of inventory on hand was conducted at year end and these quantities have been costed.

Water Inventory

Unsold purchased water has been disclosed. Correct meter readings at the beginning and end of the financial year could not be guaranteed. Consulting engineers were thus appointed to determine the water on hand for each scheme based on the capacity of reservoirs and pipelines.

Write down of inventory

Raw materials of R44 015 2013: (R123 924) on site for the housing projects were found to be damaged and were not suitable for construction.

No inventory pledged as security.

12. Receivables from exchange transactions

Trade receivables	76,253,930	67,157,013
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Trade receivables

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12. Receivables from exchange transactions (continued)

Balance as at 30 June 2014

	Gross balances	Allowance for impairment	Net balance
Water	232,133,028	(186,566,106)	45,566,922
Sanitation	149,510,935	(129,997,131)	19,513,804
Interest on arrears component	85,600,389	(74,427,185)	11,173,204
	467,244,352	(390,990,422)	76,253,930

Balance as at 30 June 2013

	Gross balances	Allowance for impairment	Net balance
Water	176,941,357	(162,347,818)	14,593,539
Sanitation	125,139,601	(91,439,066)	33,700,535
Interest on arrears component	61,937,650	(43,074,710)	18,862,940
	364,018,608	(296,861,594)	67,157,014

Debtors ageing Water and sanitation

	2014	2013
Current (0-30 days)	46,858,159	46,258,874
30-60 days	17,544,996	16,866,553
60-90days	17,343,452	17,228,984
90-120days	15,731,456	15,009,895
120-330days	132,385,618	144,319,670
+330days	237,380,671	124,334,632
	467,244,352	364,018,608

Summary of Debtors by Customer Classification 30 June 2014

	Domestic	Industrial / Commercial	National and Provincial Government	Total
Current (0-30days)	31,551,043	4,244,516	11,062,598	46,858,157
30-60days	12,443,385	986,218	4,115,393	17,544,996
60-90days	12,578,692	1,049,648	3,715,111	17,343,451
90-120days	12,019,066	708,155	3,004,234	15,731,456
120-330days	103,808,625	5,749,206	26,098,342	135,656,173
+330days	187,724,757	8,254,541	38,130,820	234,110,118
Subtotal	360,125,568	20,992,284	86,126,498	467,244,350
Less: Allowance for impairment	(297,152,719)	(15,639,617)	(78,198,084)	(390,990,420)
	62,972,849	5,352,667	7,928,414	76,253,930

Summary of Debtors by Customer Classification 30 June 2013

	Domestic	Industrial / Commercial	National and Provincial Government	Total
Current (0-30 days)	28,802,227	3,672,351	13,784,296	46,258,874
30-60days	12,519,149	1,562,669	3,276,453	17,358,271
60-90days	12,686,387	1,206,904	3,335,694	17,228,985
90-120days	11,062,763	1,541,080	2,646,196	15,250,039
120-330days	69,060,558	56,677,133	17,850,116	143,587,807
+330days	100,188,919	3,952,664	20,193,049	124,334,632
Subtotal	234,320,003	68,612,801	61,085,804	364,018,608
Less: Allowance for impairment	(192,275,914)	(55,327,630)	(49,258,049)	(296,861,593)
	42,044,089	13,285,171	11,827,755	67,157,015

The comparative figure was restated refer to note 44.

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12. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

Trade receivables

Counterparties without external credit rating in percentages

A - Government	10	17
B - Businesses	7	19
C - Domestic and other	83	64
	100	100

A - The debtors are of good credit quality and no default in payment is expected.

B – The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time.

C – These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Method of determining credit quality of trade and other receivables from exchange transaction

The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness.

Consumer debtors with a demonstrative ability to pay are encouraged to apply for potential indigent status as an ongoing customer relationship strategy and also to enable the municipality to make adequate provision for such relief.

The municipality has determined the above credit ratings internally through the consideration of previous payment trends per debtor type

Interest is raised at prime plus 2% on overdue accounts.

Trade and other receivables past due but not impaired

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

1 month past due	28,114,894	27,755,325
2 months past due	3,508,999	3,471,654
3 months past due	3,468,690	3,445,797
4 months past due	3,146,291	3,050,008
greater than 4 months	38,015,054	29,434,321

Trade and other receivables impaired

The amount of the provision was R 390,990,422 as of 30 June 2014 (2013: R 296,861,597).

The ageing of these loans is as follows:

1 to 3 months	18,743,263	18,503,550
3 to 6 months	14,035,997	13,886,617
6 to 9 months	13,874,761	13,783,187
More than 9 months past due	344,336,401	250,688,240

Reconciliation of provision for impairment of trade and other receivables including other receivables

Opening balance	303,835,988	137,925,838
Provision for impairment	116,309,046	171,757,378
Amounts written off as uncollectible	(19,253,119)	(5,847,228)
	400,891,915	303,835,988

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12. Receivables from exchange transactions (continued)

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments (more than 30 days overdue) are considered indicators that the consumer debtor is impaired. Total bad debts of R19 253 119 were written off during the year.

13. Receivables from non-exchange transactions

Total other debtors	7,763,149	4,369,106
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Receivables from non-exchange transactions

Sundry receivables	17,664,643	11,343,498
Subtotal	17,664,643	11,343,498
Allowance for doubtful debts	(9,901,494)	(6,974,392)
	7,763,149	4,369,106

In determining the recoverability of other receivables, the municipality considers any change in the credit quality of other receivables from the date on which the credit was initially granted up to the reporting date.

The fair value of other receivables approximates their carrying amounts.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2014, R 7,763,149 (2013: R 4,369,105) were past due but not impaired.

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

3 months past due	7,763,149	4,369,106
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Receivables from non-exchange transactions impaired

The amount of the provision was R 9,901,494 as of 30 June 2014 (2013: R 6,974,392).

The ageing of these loans is as follows:

Over 6 months	9,901,494	6,974,392
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	6,974,392	11,222,186
Provision for impairment	2,927,102	-
Unused amounts reversed	-	(4,247,794)
	9,901,494	6,974,392

14. VAT receivable

VAT	42,722,951	48,236,546
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VAT is paid over to SARS only once payment is received from debtors. All VAT returns have been submitted by the due date throughout the year. The comparative figure has been restated. Refer to note 44.

Amathole District Municipality

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15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	9,000	9,000
Bank balances	115,141,039	54,086,085
Short-term deposits	1,000,000	136,968,369
	116,150,039	191,063,454

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
ABSA BANK - Account No. - 406-309-3498	16,448,843	13,585,485	68,975,516	16,448,843	13,585,485	68,975,516
STANDARD BANK - Account No. - 081-093-454 (Primary Account)	100,284,746	42,594,975	31,045,398	100,284,746	40,500,600	27,106,245
ABSA BANK - Call account - Account No 915-743-9416	-	135,898,958	130,202,515	-	135,898,958	130,202,515
STANDARD BANK - Call Account - Acc No.886-438-16001	1,000,000	1,069,411	120,000,000	1,000,000	1,069,411	120,000,000
Total	117,733,589	193,148,829	350,223,429	117,733,589	191,054,454	346,284,276

16. Revaluation reserve

The surplus arising from the revaluation of land is credited to a non distributable reserve. On disposal, the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains and losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance. Any impairment loss of a revalued asset shall be treated as a revaluation decrease. To the extent that the impairment loss is recognised in the accumulated surplus/(deficit).

Opening balance	18,665,018	18,665,018
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17. Other financial liabilities

Defaults and breaches

During the financial year, 1350 payments were paid after 30 days of receipt of the invoice as per the requirement stipulated in Section 65(2)(e) of the Municipal Finance Management Act No.56 of 2003. The municipality has implemented controls in the form of registers to improve.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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18. Finance lease obligation		
Minimum lease payments due		
- within one year	726,848	418,585
- in second to fifth year inclusive	316,625	234,573
	<u>1,043,473</u>	<u>653,158</u>
less: future finance charges	(76,611)	(46,795)
Present value of minimum lease payments	966,862	606,363
Present value of minimum lease payments due		
- within one year	669,828	383,237
- in second to fifth year inclusive	297,034	223,126
	<u>966,862</u>	<u>606,363</u>
Non-current liabilities	297,033	223,126
Current liabilities	669,829	383,237
	<u>966,862</u>	<u>606,363</u>

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

The average lease term was 3 years and the average effective borrowing rate was 9,5% (2013: 9%). All leases have fixed repayment terms with no annual escalation rate, but varies with the changes in the prime interest rate. No arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Total unspent conditional grants and receipts	51,030,246	88,503,680
National Government Grants	435,640	21,728,921
Provincial Government Grants	50,147,515	65,144,971
Other Grants Providers	447,091	1,629,788
	<u>51,030,246</u>	<u>88,503,680</u>

Movement during the year

Balance at the beginning of the year	88,503,680	169,834,335
Additions during the year	465,946,909	463,564,650
Income recognition during the year	(503,420,343)	(542,069,088)
Returned to the funder	-	(2,826,217)
	<u>51,030,246</u>	<u>88,503,680</u>

The unspent conditional grant funding is covered within the cash and cash equivalents and current investments.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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20. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision:Post employment benefit	2,120,240	5,005,656	-	-	7,125,896
Performance bonus	1,195,401	1,352,145	(617,034)	(578,367)	1,352,145
	3,315,641	6,357,801	(617,034)	(578,367)	8,478,041

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision : Post employment	1,702,783	417,457	-	-	2,120,240
Performance Bonus	1,044,604	1,195,401	(552,232)	(492,371)	1,195,401
	2,747,387	1,612,858	(552,232)	(492,371)	3,315,641

Performance bonuses

The uncertainties noted for the provision for Performance Bonus are as follows:

Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date.

The provision is calculated at 14% of the current total salary package of Section 57 employees for the 2013/14 financial year, however this is subject to change once the assessments have been finalised.

Employee benefit cost provision

The uncertainties noted for the current portion of the long service awards are as follows:

The current portion of the long service award was calculated by independent actuaries that have performed a valuation for the long service award provision. Refer to Note10 for the assumptions used.

21. Payables from exchange transactions

Trade payables	83,879,263	65,629,594
Amounts received in advance :Water and sanitation	12,891	4,459,468
Other payables	10,882,499	9,924,298
Accruals	10,975,437	9,648,058
Accrued service bonus	12,428,377	9,599,700
Retentions	26,535,455	18,562,877
Consumer debtors with credit balances	6,907,026	3,606,801
Accrued Leave pay	32,890,401	24,806,318
	184,511,349	146,237,114

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
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21. Payables from exchange transactions (continued)

Fair value of trade and other payables

Trading creditors are non-interest bearing and are normally settled on 30-day terms. Retentions are non-interest bearing and are settled in terms of the contract agreement.

Management policies are in place to ensure that all payables are paid within a reasonable timeframe.

Short term payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.

The carrying amount of trade payables approximates their fair value due.

The movement on the staff leave accrual balances as above for the 2014 financial year was as follows:

Accrued Leave Pay

Opening balance	24,806,319	18,036,836
Plus: Contributions during the year	18,697,331	15,958,427
Leave sold during the year	(10,613,249)	(9,188,944)
	32,890,401	24,806,319

The leave accrual is based on the total number of accrued days at the reporting date. The full amount of the leave liability is recognised as an accrual as the municipality does not have an unconditional right to defer settlement of its leave liabilities and its policies allow leave to be carried forward or paid out without any restrictions. Hence the timing and amount are certain.

The movement on the service bonus accrual balances as above for the 2014 financial year was as follows:

Accrued Service Bonus

Opening balance	9,599,700	8,064,263
Additional provision	34,242,177	25,376,346
Unused amounts reversed	(31,413,500)	(23,840,909)
	12,428,377	9,599,700

The accrual calculation is based on the portion of the thirteenth cheque payable that falls due within the current year. The municipality has an obligation to pay a service bonus in terms of its condition of employment.

22. Taxes and transfers payable (non-exchange)

Other payables from non-exchange	5,651,074	5,287,518
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This amount represents PAYE for the month of June 2014 that was paid in July 2014

23. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At amortised cost	Total
Cash and cash equivalent	116,150,039	116,150,039
Trade and other receivables from exchange transactions	76,253,930	76,253,930

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
Financial instruments disclosure (continued)		
Other receivables from exchange transactions	7,763,149	7,763,149
Current Investments	387,616,947	387,616,947
	587,784,065	587,784,065

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	184,511,344	184,511,344

2013

Financial assets

	At amortised cost	Total
Cash and cash equivalents	191,063,454	191,063,454
Trade and other receivables from exchange transactions	67,157,015	67,157,015
Other receivables from exchange transactions	4,369,105	4,369,105
Current investments	472,085,202	472,085,202
	734,674,776	734,674,776

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	146,237,113	146,237,113

24. Consumer deposits

Water and sanitation	2,114,008	1,943,650
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The consumer deposits relate to the water and sanitation function.

The municipality does not have an unconditional right to defer the payment of the consumer deposits. Deposits are released when the owner of a property terminates the contract with the municipality to supply water to the property.

25. Revenue

Service charges	200,458,055	235,211,610
Rental of facilities and equipment	396,046	326,333
Interest earned - outstanding receivables	31,908,697	23,077,011
Other income	8,233,316	4,952,659
Interest received - investment	32,462,037	36,605,289
Government grants & subsidies	1,124,974,361	1,171,548,580
Own revenue - VAT on MIG	46,561,234	61,193,497
Own revenue -other grants	7,117,523	12,024,322
Actuarial gain on post employment medical aid	-	6,563,608
	1,452,111,269	1,551,502,909

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

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25. Revenue (continued)

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

Service charges	200,458,055	235,211,610
Rental of facilities and equipment	396,046	326,333
Interest earned - outstanding receivables	31,908,697	23,077,011
Other income	8,233,316	4,952,659
Interest received - investment	32,462,037	36,605,289
	273,458,151	300,172,902

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

Transfer revenue

Government grants & subsidies	1,124,974,361	1,171,548,580
Own revenue -VAT MIG	46,561,234	61,193,497
Own revenue - other grants	7,117,523	12,024,322
Acturial gain on post employment medical aid	-	6,563,608
	1,178,653,118	1,251,330,007

Nature and type of Bequests, gifts, donations and goods in-kind are as follows:

Refreshments and stationery were donated to ADM officials during the year under review.

26. Rental and other facilities

Other and Facilities

Rental of facilities

Straight lined operating lease receipts	220,452	212,763
Other rentals	175,594	113,570
	396,046	326,333

27. Service charges

Sale of water	140,562,704	150,460,010
Sewerage and sanitation charges	56,207,949	81,483,846
Fire service charges	3,687,402	3,267,754
	200,458,055	235,211,610

Service charges are reflected at an amount net of subsidy to indigents amounting to R10,852,544 (2013:R3,343,058) for both water and sanitation. The comparative figure was restated. Refer to note 44

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
28. Government grants and subsidies		
Operating grants		
Conditional grants: conditions met - transferred to revenue	15,578,104	40,493,568
Other government grants and subsidies	27,809,696	13,093,087
Levy replacement grant	248,104,000	227,567,292
Equitable share	373,527,000	355,842,708
	<u>665,018,800</u>	<u>636,996,655</u>
Capital grants		
Neighbourhood Development Grant	-	32,940,000
MWIG capital	12,300,003	-
RHIG	8,404,726	-
RBIG	27,237,547	61,902,158
MIG grant	412,013,285	439,709,767
	<u>459,955,561</u>	<u>534,551,925</u>
	<u>1,124,974,361</u>	<u>1,171,548,580</u>
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of which is funded from the grant.		
Equitable Share		
Current-year receipts	373,527,000	355,842,708
Conditions met - transferred to revenue	(373,527,000)	(355,842,708)
	<u>-</u>	<u>-</u>
Levy Grant Replacement		
Current-year receipts	248,104,000	227,567,292
Conditions met - transferred to revenue	(248,104,000)	(227,567,292)
	<u>-</u>	<u>-</u>
Regional Services Council levies were abolished during June 2006. This grant is used to subsidise the operations of the District Municipality due to the significant change in funding.		
Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2010), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
Conditional		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	12,166,286	62,090,053
Current-year receipts	399,847,000	389,786,000
Conditions met - transferred to revenue	(412,013,286)	(439,709,767)
	<u>-</u>	<u>12,166,286</u>
Conditions still to be met - remain liabilities (see note 19).		
Regional Bulk Infrastructure Grant (RBIG)		
Balance unspent at beginning of year	869,197	11,670,139

Amathole District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
28. Government grants and subsidies (continued)		
Current-year receipts	29,386,508	51,101,216
Conditions met - transferred to revenue	(27,237,547)	(61,902,158)
	3,018,158	869,197
Conditions still to be met - remain liabilities (see note 19).		
Municipal System Improvement Grant (MSIG)		
Balance unspent at beginning of year	119,226	163,888
Current-year receipts	890,000	1,000,000
Conditions met - transferred to revenue	(859,692)	(1,044,662)
	149,534	119,226
Conditions still to be met - remain liabilities (see note 19).		
Expanded Public Works Programme Grant (EPWP)		
Balance unspent at beginning of year	8,467,272	10,917,173
Current-year receipts	3,125,000	6,022,000
Conditions met - transferred to revenue	(11,592,272)	(8,471,901)
	-	8,467,272
Conditions still to be met - remain liabilities (see note 19).		
Department of Water Affairs :Flood Relief Grant		
Balance unspent at beginning of year	510,076	510,076
Conditions met - transferred to revenue	(319,487)	-
	190,589	510,076
Conditions still to be met - remain liabilities (see note 19).		
Financial Management Grant (FMG)		
Balance unspent at beginning of year	366,774	330,440
Current-year receipts	1,250,000	1,250,000
Expenditure	(1,616,774)	(1,213,666)
	-	366,774
Conditions still to be met - remain liabilities (see note 19).		
Rural Roads Asset Management Grant (RAMS)		
Balance unspent at beginning of year	-	746,694
Current-year receipts	2,347,000	1,776,000
Conditions met - transferred to revenue	(2,346,756)	-
Other	-	(2,522,694)
	244	-
Conditions still to be met - remain liabilities (see note 19).		
Water Services Operating Subsidy Grant (WSOG)/Refurbishment		
Balance unspent at beginning of year	590,574	-

Amathole District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
28. Government grants and subsidies (continued)		
Current-year receipts	6,000,000	19,033,000
Conditions met - transferred to revenue	(6,590,574)	-
Other	-	(18,442,426)
	-	590,574
Municipal Water Infrastructure Grant (MWIG)		
Current-year receipts	12,300,000	-
Conditions met - transferred to revenue	(12,300,000)	-
	-	-
Conditions still to be met - remain liabilities (see note 19).		
Rural Housing Infrastructure Grant (RHIG)		
Current-year receipts	8,500,000	-
Conditions met - transferred to revenue	(8,404,726)	-
	95,274	-
Conditions still to be met - remain liabilities (see note 19).		
Neighbourhood Development Partnership Grant (NDPG)		
Current-year receipts	-	32,940,000
Conditions met - transferred to revenue	-	(32,940,000)
	-	-
Conditions still to be met - remain liabilities (see note 19).		
29. Other income		
Commission	538,079	223,081
Connection fees	809,893	(160,940)
Conservancy fees	1,407,632	1,207,040
Discount received	272,822	-
Legal fees recovered	15,502	89,334
Sundry income	4,298,173	1,445,294
Bad debts recovered	198,161	1,325,740
RD cheques bank charges recovered	1,797	4,578
Solid waste charges	539,633	763,632
Emergency tanked water	151,624	54,900
	8,233,316	4,952,659

Amathole District Municipality

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Figures in Rand	2014	2013 Restated
30. General expenses		
Advertising	1,081,610	1,678,374
Advisory Forums	162,037	170,535
Amathole Economic Development Agency Contribution	15,000,000	15,000,000
Annual Event	1,380,911	627,353
Assessment rates	710,991	330,389
Bank charges	297,530	345,856
Audit Committee	590,295	404,259
Audit fees	4,167,159	4,262,296
Books and Publications	85,463	63,872
Bursary for Rare Skills	419,943	168,433
Consumables	498,878	533,351
By Law Consultation	-	22,803
Campaigns and Promotions	5,074,816	4,007,633
Chemicals	6,108,409	893,867
Cleaning Materials	45,059	79,310
Gifts	253,728	-
Communication	2,046,810	790,169
Community Based Organisation	19,916,280	8,517,565
Entertainment	160,476	185,118
Conditional Grant Expenditure	61,939,228	66,897,164
Conferences Expenses	2,621,213	2,182,509
Consultants	40,776,638	57,703,928
Consultative Forums	667,036	695,110
Database expenditure	564,272	266,230
Delegated Management	1,247,142	1,405,356
Insurance	6,032,699	5,150,569
Disposal of the Dead	181,116	174,275
Electricity, Water and Refuse	49,376,986	26,200,714
Emergency Provisions	1,775,379	2,102,185
Employee Welfare	5,413,234	3,768,310
Administration	400	-
Food Control	2,775,273	7,189,534
Marketing	3,248,271	2,571,509
Grants In Aid	477,166	429,805
Hiring Costs	22,744,289	1,185,402
Housing Inventories	44,015	123,924
IGR Learnership and Programmes	131,872	99,092
Recruitment expenditure	836,275	346,937
International Programmes	220,529	165,423
Job Evaluation Expenditure	-	532,220
Fumigation	68,270	117,921
Licenses and Subscriptions	687,685	475,448
Printing & Stationery	5,327,627	4,663,564
Meeting Costs	3,706,878	1,143,803
Membership Fees	4,693,934	3,393,126
Oversight Committee	401,319	63,192
Protective clothing and uniform	6,781,434	3,289,349
Pit Latrine Clearance	6,054,996	1,912,075
Postage	2,145,837	1,850,218
Project Management	785,839	741,275
Property Transfer Costs	57,777	-
Public Participation	2,668,991	2,830,599
Refreshments	3,037,960	2,626,141
Rentals:VPN Lines	1,397,671	1,428,583
Livestock improvement	441,122	-
Fire services	5,565	3,439
Sampling and Testing	1,240,144	1,214,672
Security Services	17,512,909	14,475,267

Amathole District Municipality

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Figures in Rand	2014	2013 Restated
30. General expenses (continued)		
Skills Development Levy	3,713,240	2,976,518
Software and Computer Expenditure	14,065,056	15,268,706
Solid Waste Site Costs	4,126,394	3,451,227
Special Programmes	12,289,573	4,981,030
Stipend Volunteers	1,191,200	880,734
Subsistence and Travel	14,521,223	11,739,729
Telephone Expenditure	4,802,788	3,925,775
Tools	261,404	78,961
Tourism	-	13,500
Training and Workshops	9,620,235	5,944,370
Transport	25,397,677	15,060,503
Water Research Levy	813,308	362,446
Whippery	102,046	47,581
Bulk purchases:chemicals	2,648,153	4,788,643
Bulk purchases:repairs and maintainance	1,394,586	17,439,546
Bulk purchases:labour,supervision and travel	15,569,902	22,106,721
Bulk purchases:general expenses	4,527,919	5,983,014
Ethics and discipline	1,390	-
Performance management system	30,000	-
Offsite storage	42,031	-
Stores and materials	407,994	-
	431,615,505	372,549,055

31. Operating surplus

The surplus for the period (after the loss on the disposal of assets) as previously reported was R444,151,652. It was restated with R1,468,464 due to prior period errors, refer to note 44 for further details. Surplus for the year is stated (after the loss on disposal of assets) as follows:

Surplus 2013 as previously reported	-	444,151,651
Corrections (note 44)	-	(1,468,464)
Surplus for the year	-	442,683,187

Amathole District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
32. Employee related costs		
Employee related costs - Salaries and Wages	267,264,035	227,599,296
Bonus	14,624,795	19,107,634
Medical aid - company contributions	23,268,915	17,956,457
UIF	2,358,028	1,998,110
WCA	2,925,923	4,312,685
Contributions: SAMWU	2,940,935	2,802,503
Leave pay provision charge	27,170,117	15,924,379
Contribution: Pension Fund	39,244,975	32,289,189
Contribution : Group Life	340,400	335,347
Bargaining Council	123,844	108,176
Employee Benefit Contribution	24,496,866	11,184,598
Travel, motor car, accommodation, subsistence and other allowances	15,710,498	12,542,429
Overtime payments	16,913,511	11,905,758
Car allowance	4,122,672	-
Housing benefits and allowances	3,066,814	1,893,192
Pensioners ex gratia	41,499	(12,014)
Allowance: Cellphone	5,853,148	4,511,014
Allowance: Shift	1,729,583	1,700,636
Allowance :Standby	5,588,834	3,557,862
Allowance:Uniform	-	62
Allowance :Dirt	1,659,828	1,442,715
Long-term benefits - incentive scheme	2,954,657	-
Employee Study Scheme	1,758,425	1,451,155
	464,158,302	372,611,183
Amount expensed in respect of retirement benefit plans:		
Defined contribution funds	56,973,844	50,912,582
Defined benefit funds	2,279,778	2,560,954
	59,253,622	53,473,536
Remuneration of Municipal Manager		
Annual Remuneration	1,422,988	1,209,273
Performance Bonus	106,938	180,000
Leave Encashment	87,954	10,519
Cell Phone Allowance	45,684	446
Travel Allowance	192,000	85,068
Back pay of remuneration	15,416	40,525
Contribution to UIF, Medical and Pension Fund	1,785	168,325
	1,872,765	1,694,156
Remuneration of Chief Finance Officer: Y Ngqele		
Annual Remuneration	-	481,318
Performance Bonus	-	126,877
Leave Encashment	-	52,688
Cell Phone Allowance	-	25,536
Travel Allowance	-	161,191
Back pay of remuneration	-	58,374
Contributions to UIF, Medical and Pension Funds	-	125,772
	-	1,031,756

The Chief Financial Officer (Mr Y Ngqele) resigned on 28 February 2013 from Amathole District Municipality

The new Chief Financial Officer (Mr N Soga) was appointed on 01 June 2013

Amathole District Municipality

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32. Employee related costs (continued)		
Remuneration of the Director:Engineering		
Annual Remuneration	758,051	616,605
Performance Bonus	47,528	-
Housing Allowance	192,000	-
Cell Phone Allowance	43,248	37,380
Travel Allowance	216,000	377,061
Back pay of Remuneration	21,311	60,827
Contributions to UIF, Medical and Pension Fund	169,958	149,218
	1,448,096	1,241,091

The Director of Engineering, Mr N. Jonker resigned from the Amathole District Municipality on 30 June 2012.
Mr V M Shezi was appointed on 11 July 2012.

Remuneration of the Director:Strategic Management-S Mengezeleli

Performance Bonus	-	133,266
Leave Encashment	-	108,488
Contributions to UIF, Medical and Pension Fund	-	149
	-	241,903

The Director of Strategic Management, Mr S. Mengezeleli resigned from the Amathole District Municipality on 30 June 2012
Mr R.B. Links was appointed on 1 August 2012.

Remuneration of the Director:Corporate Services

Annual Remuneration	885,077	688,604
Performance Bonus	87,136	116,405
Leave Encashment	42,684	36,533
Cell Phone Allowance	43,248	35,170
Travel Allowance	288,000	233,890
Back pay of remuneration	19,616	33,953
Contributions to UIF,Medical and Pension Fund	164,629	131,797
	1,530,390	1,276,352

The Director of Corporate Services, Mr G. Taku resigned from the Amathole District Municipality on 30 June 2012
Mr L.Taleni was appointed on 1 August 2012.

Remuneration of Director:Health & Protection-Sister Solomon

Performance Bonus	-	125,874
Contributions to UIF, Medical aid and Pension Fund	-	148
	-	126,022

The Director of Health and Protection Services, Sister N. Solomon resigned from the Amathole District Municipality on 30 June 2012.
Ms S.Taleni was appointed on 11 July 2012

Remuneration of Director:Land Settlements and Housing

Annual Remuneration	770,950	633,345
Performance Bonus	70,298	-
Leave Encashment	72,000	44,086
Housing subsidy	49,897	-

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Figures in Rand	2014	2013 Restated
32. Employee related costs (continued)		
Cell Phone Allowance	40,800	35,270
Travel Allowance	252,000	300,999
Back Pay of Remuneration	15,969	95,451
Contributions to UIF, Medical and Pension Fund	184,434	161,424
	1,456,348	1,270,575

The Director of Land Human Settlements Economic Development, Mr. M. Gaba resigned from Amathole District Municipality on 30 June 2012

Mr M.Gaba was re-appointed as the Land Human Settlements and Economic Development Director as from 11 July 2012.

Remuneration of the Director:Legislative and Executive Support

Annual Remuneration	923,105	336,351
Performance Bonuses	62,451	-
Leave Encashment	37,264	-
Cell Phone Allowance	35,916	13,315
Travel Allowance	264,000	105,000
Back Pay of Remuneration	21,260	3,985
Contributions to UIF, Medical and Pension Fund	1,784	744
	1,345,780	459,395

The Legislative Executive Services directorate was newly created during the prior year.

Ms L Simanga was appointed as the Legislative Executive Services Director as from 1 February 2013

Remuneration of the Chief Finance Officer:N Soga

Annual Remuneration	803,819	60,674
Performance Bonus	6,931	-
Housing Allowance	84,000	-
Acting Allowance	-	5,000
Cell Phone Allowance	43,248	3,206
Travel Allowance	252,118	18,000
Leave Encashment	83,318	-
Back payment of Remuneration	15,291	-
Contributions to UIF, Medical and Pension Funds	197,165	16,172
	1,485,890	103,052

Mr N Soga was appointed as the Chief Financial Officer as from 1 June 2013.

Remuneration of the Director:Strategic Management-R Links

Annual Remuneration	665,567	664,605
Performance Bonuses	87,136	-
Housing Allowance	276,000	100,000
Leave Encashment	156,734	-
Cell Phone Allowance	43,248	35,170
Travel Allowance	264,000	231,000
Back Pay of Remuneration	16,890	41,932
Contributions to UIF, Medical and Pension Fund	134,862	33,135
	1,644,437	1,105,842

Mr R.Links was appointed as the Strategic Director as from 1 August 2012.

Remuneration of the Director: Health & Protection - Sister Taleni

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32. Employee related costs (continued)		
Annual Remuneration	507,878	611,350
Performance Bonuses	90,829	-
Leave Encashment	291,356	-
Housing Allowance	56,000	73,158
Cell Phone Allowance	27,200	35,270
Travel, motor car, accommodation, subsistence and other allowances	168,000	245,550
Back pay remuneration	21,823	69,672
Contributions to UIF, Medical and Pension Funds	107,551	137,873
	1,270,637	1,172,873
33. Remuneration of councillors		
Executive Mayor	813,781	828,559
Mayoral Committee Members(11members)	-	6,735,505
Speaker	-	651,577
Councillors 2014: (37) - 2013:(33)	6,353,955	3,248,753
Traditional Leaders	169,361	-
Councillors allowances	4,915,565	98,158
	12,252,662	11,562,552

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33. Remuneration of councillors (continued)

In-kind benefits

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

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

The Executive Mayor has full-time bodyguards .

The salary allowances and benefits of the political office - bearers are within the upper limits of the framework prescribed by Sect 219 of Constitution.

Executive Mayor : NH Konza

Salary	264,080	251,550
Cell Allowance	36,582	39,828
Travel Allowance	90,584	85,338
Housing Allowance	462,052	441,192
3G Allowance	3,600	3,600
Back Pay	7,671	7,050
	864,569	828,558

Speaker : S Janda

Salary	261,050	249,644
Cell Allowance	20,868	19,872
Travel Allowance	-	84,387
Housing Allowance	390,997	288,000
3G Allowance	3,600	3,600
Back Pay	7,464	6,074
	683,979	651,577

Cllr : L Jacobs

Salary	450,837	430,124
Cell Allowance	20,868	19,872
Travel Allowance	154,573	147,208
3G Allowance	3,600	3,600
Back Pay	12,881	11,512
	642,759	612,316

Cllr : T Xundu - Kubukeli

Salary	239,867	225,443
Cell Allowance	20,868	19,872
Travel Allowance	82,122	77,624
Housing Allowance	289,800	276,000
3G Allowance	3,600	3,600
Back Pay	6,500	9,781
	642,757	612,320

Cllr : EB Madikane

Salary	450,837	430,124
Cell Allowance	20,868	19,872
Travel Allowance	154,572	147,208
3G Allowance	3,600	3,600
Back Pay	12,881	11,512
	642,758	612,316

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33. Remuneration of councillors (continued)		
Cllr : SB Mtintsilana		
Salary	450,837	430,124
Cell Allowance	20,868	19,872
Travel Allowance	154,572	147,208
3G Allowance	3,600	3,600
Back Pay	12,881	11,512
	642,758	612,316
Cllr : B Melitafa		
Salary	235,267	220,263
Cell Allowance	20,868	19,872
Travel Allowance	80,547	76,135
Housing Allowance	296,100	282,000
3G Allowance	3,600	3,600
Back Pay	6,376	10,450
	642,758	612,320
Cllr : P Billie		
Salary	450,837	430,124
Cell Allowance	20,868	19,872
Travel Allowance	154,572	147,208
3G Allowance	3,600	3,600
Back Pay	12,881	11,512
	642,758	612,316
Cllr : M Papu		
Salary	267,469	254,202
Cell Allowance	20,868	19,872
Travel Allowance	91,572	86,556
Housing Allowance	252,000	240,000
3G Allowance	3,600	3,600
Back Pay	7,248	8,090
	642,757	612,320
Cllr : M Memani		
Salary	450,837	430,401
Cell Allowance	20,868	19,872
Travel Allowance	154,572	146,382
3G Allowance	3,600	3,600
Back Pay	12,881	12,065
	642,758	612,320
Cllr : P Finca		
Salary	450,837	430,401
Cell Allowance	20,868	19,872
Travel Allowance	154,572	146,382
3G Allowance	3,600	3,600
Back Pay	12,881	12,065
	642,758	612,320
Cllr : S Genu		
Salary	285,870	269,375

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33. Remuneration of councillors (continued)		
Cell Allowance	20,868	19,872
Travel Allowance	97,872	92,511
Housing Allowance	226,800	216,000
3G Allowance	3,600	3,600
Back Pay	7,747	10,962
	642,757	612,320
CIlr : M Bikitsha		
Salary	184,663	176,101
Cell Allowance	20,868	19,872
Travel Allowance	63,222	59,759
Housing Allowance	365,400	348,000
3G Allowance	3,600	3,600
Back Pay	5,004	4,989
	642,757	612,321
34. Debt impairment		
Contributions to debt impairment provision	116,309,046	139,027,009
35. Investment revenue		
Interest revenue		
Bank	6,638,927	10,614,250
Financial assets	25,823,110	25,991,039
	32,462,037	36,605,289
36. Depreciation and amortisation		
Property, plant and equipment	103,642,298	97,385,967
Property, plant and equipment	103,633,058	97,377,127
Intangible assets	402	-
Investment property	8,838	8,838
	103,642,298	97,385,965
37. Finance costs		
Total finance costs	14,476,675	10,944,929
Finance leases	141,483	140,337
Employee benefit obligations	13,900,021	10,804,592
VAT penalty	403,823	-
Interest overdue accounts	31,348	-
	14,476,675	10,944,929

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Notes to the Annual Financial Statements

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38. Contracted services		
Contractual amounts - office equipment	559,816	405,960
Contractual amounts - accommodation	16,178,848	11,754,607
Contractual amounts - parking	1,837,251	1,593,841
Contractual amounts - motor vehicles	687,883	15,261,677
	19,263,798	29,016,085
39. Bulk purchases		
Water	62,048,818	51,558,536
40. Cash generated from operations		
Surplus	180,205,866	442,683,186
Adjustments for:		
Depreciation and amortisation	103,642,298	97,385,967
Gain /(loss) on assets and disposal	(2,055,352)	1,379,502
Debt impairment	116,309,046	139,027,009
Movements in operating lease assets and accruals	(22,883)	(123,968)
Movements in retirement benefit assets and liabilities	36,345,888	15,008,125
Movements in provisions	5,162,400	568,254
Changes in working capital:		
Inventories	(389,179)	(307,554)
Receivables from exchange transactions	(9,096,917)	(36,751,966)
Consumer debtors	(116,309,046)	(139,027,009)
Other receivables from non-exchange transactions	(3,394,043)	53,656
Payables from exchange transactions	38,274,235	(21,192,837)
VAT	5,513,595	(27,566,273)
Taxes and transfers payable (non exchange)	363,556	5,287,518
Unspent conditional grants and receipts	(37,473,434)	(81,330,655)
	317,076,030	395,092,955

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

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41. Commitments

Authorised capital expenditure

Approved and contracted for

• Infrastructure	900,618,447	598,848,495
• Community	48,625,061	15,334,465
• Other - Land and Buildings	10,650,947	31,115,117
	959,894,455	645,298,077

This expenditure will be financed from

Governments grants	837,839,106	559,557,893
Own resources	122,055,349	85,740,184
	959,894,455	645,298,077

Authorised operational commitments

The municipality has committed to security services for a period of three years.

Approved and contracted

Cleaning services	22,211	94,256
IT related services	12,710,846	7,653,903
Security services	57,290,557	7,244,455
Financial related services	5,020,414	25,080
	75,044,028	15,017,694

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	5,526,830	8,752,163
- in second to fifth year inclusive	4,430,659	3,670,411
	9,957,489	12,422,574

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

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	118,302	123,909
- in second to fifth year inclusive	289,959	300,287
- later than five years	56,928	133,471
	465,189	557,667

Operating Leases consists of the following:

Operating lease payments represent rentals receivable by the Municipality for certain of its properties situated in Stutterheim, Komga, Cathcart, Adelaide and Macleantown.
No contingent rent is payable.

Leases are negotiated for an average of 6 years and rentals escalate by an average of 12% annually.

Amathole District Municipality

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42. Contingencies		
Contingent liabilities		
Legal claims		
Five legal claims submitted to the legal department of the municipality are in the process of being resolved. The estimated liability of such claims, should the claimant be successful is disclosed. The timing of the legal proceedings regulating the claims is uncertain.		
Legal disputes relate to:		
Claim for damages		
	-	588,308
The plaintiff has instituted legal action against the municipality for damages after a motor vehicle accident involving livestock. Matter is dormant and only open to monitor plaintiffs actions		
	19,094	-
The municipality has been sued in respect of a vehicle that was taken to the complainant to be repaired by Nkonkobe Local Municipality years ago and was never collected. There is uncertainty as to who actually owns the vehicle in question. The Municipality is being sued for storage fees. Default judgement was granted against the ADM and a Warrant of Execution was issued.		
Compensation for work performed by a contractor	3,310,894	3,310,894
The municipality has been sued for the payment of outstanding amounts claimed in relation to the construction of RDP houses. The municipality has pleaded that it is not obliged to pay the amounts until receipt of funds from the Eastern Cape Department of Human Settlements. Department of Human Settlements has now been joined, and either their approach for settlement or defence are expected.		
	1,323,586	-
The claim is in respect of services rendered in the amount of R1,323,585.61. The entity performed poorly but were nonetheless paid proportionately in terms of the agreement. Exceptions have been raised.		
Cession agreement	27,225	27,225
Legal action has been instituted against the municipality in respect of a cession agreement which the plaintiff claims that the municipality is indebted to it for. Matter is set down for September 2014.		
Contingent assets		
The following contingent assets have been disclosed and not recognised as the outcome is dependent on a legal ruling.		
Non -performance on a contract	500,595	500,595

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42. Contingencies (continued)

The municipality has instituted legal action against a contractor and its surety. The municipality and its lawyers are of the opinion that the litigation is likely to be in the municipality's favour. The timing of the legal proceedings regulating the above is uncertain.

Contractual dispute

-	54,152
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The municipality was awarded judgement and costs in the matter. Upon execution of the judgement, it was found that the company concerned had been dissolved, hence the judgement no longer exists.

Breach of contract

1,198,370	1,198,370
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The municipality instituted legal action against a contractor for damages related to breach of contract as a result of the contractor's abandonment of the project. The municipality and its lawyers are of the opinion that the litigation is likely to be in the municipality's favour. The timing of the legal proceedings regulating the above is uncertain.

43. Related parties

Relationships
Controlled entity

Refer to note 6

Related party transactions

Administration fees paid to (received from) related parties

Amathole Economic Development Agency for the operations	15,000,000	15,000,000
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Neighbourhood Development Grant

NDPG project	-	32,940,000
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Hogsback Compost Coop

Essential Oil Project	-	500,000
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Ndakana Honey Coop

Blueberry project	-	500,000
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Abenzi Furniture Makers Coop

Young furniture makers project	-	400,000
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Dutywa Water and Sewer Pipe Replacement Programme

Dutywa pipe replacement programme	-	500,000
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Cooperative Development Centre

Operational funds	200,000	-
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The Amathole Economic Development Agency was established 1 September 2005

Place of Incorporation: South Africa

Principal Activity: To promote local economic development in the Amathole Municipal District Area.

Amathole District Municipality

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44. Prior period errors

VAT-General expenditure

During the current financial year, SARS conducted an audit of the input VAT from the 2008 to 2013 financial years that was claimed by the municipality. SARS disallowed certain input VAT claims, hence the expenditure in prior years was under-stated. The error was corrected in the current financial year and was adjusted retrospectively. Refer to note 14 and note 30

Revenue - service charges

On 1 July 2006 the municipality assumed responsibility for the provision of water and sanitation services as required by Government Notice 849 issued in terms of section 84(3)(a) of the Municipal Structures Act, 1998 (Act No. 117 of 1998).

The municipality is continually checking the accuracy of its debtors database.

During previous years, consumer accounts taken over from the local municipalities were incorrect. Hence revenue was incorrectly recognised. The error was corrected in the current financial year and was adjusted retrospectively. Refer to note 27 and note 54.

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

Statement of financial position

Decrease in VAT receivable	-	(1,368,673)
Decrease in Consumer debtors	-	(4,124,857)

Net effect on statement of Financial position

- **7,052,379**

Statement of Financial Performance

Decrease in Service charges	-	1,100,744
Decrease in Interest: Outstanding Receivables	-	193,623
Increase in General Expenditure	-	174,097

Net effect on financial performance

- **1,468,464**

Net decrease in the accumulated surplus

4,025,065

Cash flow statement

Cash flow from operating activities

Decrease in Consumer Debtors	-	1,294,367
Decrease in Service Charges	-	(1,294,367)
Decrease in VAT receivable	-	(174,097)
Increase in General Expenditure	-	174,097

- -

45. Risk management

Financial risk management

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

The Accounting Officer has the overall responsibility for the establishment and oversight of the Municipality's risk management framework. The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. 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. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the municipality's activities. Policies are approved by the Council. The Council has established a Risk Management Committee, which is responsible for developing and monitoring the municipality's risk management policies.

Amathole District Municipality

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45. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

On average 46% (2013: 38%) of receivable (own billed) income is realised within 30 days after the due date and payables are settled within 30 days of receipt of the invoice. National and Provincial grant funding is received in terms of the Division of Revenue Act (DoRA).

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to liquidity risk, the approach of measurement or the objectives, policies and processes for managing this risk.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The impact of discounting is not significant.

2014	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and later than five years	Total
Trade and other payables	101,761,726	-	82,749,618	-	184,511,344
Other	-	-	1,352,145	-	1,352,145
Gross finance leases	60,571	181,712	484,565	316,625	1,043,473
	101,822,297	181,712	84,586,328	316,625	186,906,962
2013	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years	Total
Trade and other payables	78,884,453	-	47,738,377	19,614,284	146,237,114
Other	-	-	1,195,401	-	1,195,401
Gross finance leases	34,882	104,646	279,057	234,573	653,158
	78,919,335	104,646	49,212,835	19,848,857	148,085,673

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45. Risk management (continued)

Interest rate risk

The municipality's activities expose it primarily to the risks of fluctuations in interest rate.

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

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how surplus and/or net assets would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

At year end financial assets exposed to interest rate risk were as follows:

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with the South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus/deficit.

Investments at fixed interest rates.

Trade receivables in arrears are linked to the South African prime rate plus two percent.

Loans granted are linked to a fixed rate of interest.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer to Note 8.

At year end, financial liabilities exposed to interest rate risk were as follows:

Finance leases linked to the South African prime rate.

Management manages interest rate risk by negotiating beneficial rates.

Interest rate sensitivity analysis

Financial Assets

At 30 June 2014, if interest rates at that date had been 50 basis points higher, with all other variables constant, the effect on the statement of financial performance would have been R321 859 higher (2013: R299 748) with the opposite effect if the interest rate had been 50 basis points lower.

Financial liabilities

At 30 June 2014, if interest rates at that date had been 50 basis points higher, with all other variables constant, the effect on the statement of financial performance would have been R495 lower (2013: R702) with the opposite effect if the interest rate had been 50 basis points lower.

Amathole District Municipality

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45. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Financial assets that potentially subject the municipality to credit risk, consist primarily of cash deposits, cash equivalents, short term deposits, loans and receivables, investments and trade and other receivables.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

Investments and borrowing

To manage credit risk in borrowing and investing, the municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions and by spreading its exposure over a range of such institutions in accordance with its investment policies approved by Council. The municipality determines concentrations of credit risk by reference to major counterparties. Counter-parties comprise larger South African banks with high quality credit ratings. Consequentially the municipality does not consider there to be any significant exposure to credit risk.

Loans receivable

Loans are granted and managed in accordance with policies and regulations as set out in Note 7. The associated interest rates and repayments are clearly defined and where appropriate, the municipality obtains certain suitable forms if security when granting loans. Allowances for impairment are made in certain instances.

Cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating and within specific guidelines set in accordance with Council's approved investment policy.

Consequently the municipality does not consider there to be any significant exposure to credit risk.

Receivables

Receivables are amounts owing by consumers and presented net of impairment losses. The municipality has a credit control and debt collection policy in place, and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review.

The municipality's strategy for managing its risk includes encouraging residents to install water management devices that control water flow to households. In certain instances, a deposit is required for new service connections, serving as a guarantee. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographic area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables.

The average credit period on services rendered is 30 days from date of invoice. Interest is raised at prime plus 2% on any unpaid accounts after the due dates. The municipality has provided fully for all receivables outstanding over 365 days.

Receivables up to 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience. Additional information relating to the analysis of receivables is given in Note 12.

Consumer debtors with a demonstrative inability to pay are encouraged to apply for potential indigent status as an ongoing customer relationship strategy and also to enable the municipality to make provision for such relief.

Maximum exposure to credit risk

The carrying amount of financial asset, represent the municipality's exposure to credit risk in relation to these assets.

The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.

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

Financial instrument	2014	2013
Cash and cash equivalents	116,150,039	191,063,454
Current Investments	387,616,947	472,085,202
Trade and other receivables from exchange transactions	76,253,930	67,157,013

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45. Risk management (continued)		
Other current financial assets	7,763,149	4,369,106
Other Non current financial assets	1,314,062	1,008,109

Foreign exchange risk

The municipality was not a direct party any outstanding forward exchange contract at the reporting date. The movement in the currency was not material to the municipality's procurement and, consequently, is not elaborated on any further.

46. Events after the reporting date

Front Loading of MIG

During August 2014, National Treasury approved an amount of R602 million for the front loading of the Municipal Infrastructure Grant (MIG) in order to fast track Sanitation and Water Projects.

47. Water distribution losses

The amount recorded as distribution losses emanates from the provision of water to free basic services beneficiaries through communal standpipes and also network/distribution losses due to burst pipes and other leakages.

Water distribution losses	90,478,188	60,058,990
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48. Unauthorised expenditure

Unauthorised expenditure - opening	58,694,827	-
Unauthorised expenditure current year	-	58,694,827
Unauthorised expenditure condoned	(58,694,827)	-
	-	58,694,827

The operational budget was exceeded at vote level by R382490 due to an increase in depreciation charges at year end, however the total budget at institutional level was not overspent. This expenditure type is of a non cash flow nature. The capital budget was exceeded at vote level by an amount of R58 312 337 this was as a result of MIG and RBIG roll-overs not being included in the budget ,yet these amounts were spent as well as by assets that were capitalised as finance leases in accordance with GRAP

The unauthorised expenditure was approved by the Council on the 31st of January 2014

49. Fruitless and wasteful expenditure

Opening balance	464,849	447,326
Fruitless and wasteful expenditure current year	436,128	17,523
Condoned or written off by Council	(2,953)	-
	898,024	464,849

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49. Fruitless and wasteful expenditure (continued)

Incident

During the 2013/14 financial year, interest and penalties of R403 823 was paid to SARS as a result of a VAT audit. Interest of R32 164 was incurred on late payments during 2013/14. Both instances are still under investigation.

During the 2012/13 financial year, three instances of late payment incurring interest were incurred, being R7617, R302 and R9 603 respectively.

The ADM is investigating all the matters of the late payment and will recover any costs if necessary.

An amount of R2 for interest on late payment to the Cape Joint Fund was incurred during May 2012. The matter is under investigation.

During 2011/12 financial year, interest of R43 963 was incurred on accounts due. This was as a result of a dispute logged regarding previously charged interest and fees. The dispute was never resolved, yet the interest kept on accumulating on the amount in dispute. This matter is currently under investigation.

An amount of R84 for interest on late payment was incurred to a Pension Fund during 2011/12. Council wrote the amount off during 2013/14.

Penalties of R20 were incurred during 2011/12 as a result of the Private Bag address not being renewed on time. This amount was written off by Council during 2013/14.

Interest of R2 850 was incurred during 2011/12 due to late payment of subscriptions. This amount was written off by Council during 2013/14.

During 2010/11, interest of R714 was incurred on late payment. The ADM has investigated the matter. Awaiting Council resolution for the condonation of this matter on 31 August 2012.

During the 2009/10 financial year, rental costs of R91 835, R88 803 and R184 207 were incurred for the 9th, 14th and ground floors respectively at Caxton House. The matter is awaiting for Council approval.

A payment of R34 830 was made to a contractor for interest incurred on construction. The interest was to be paid per the ruling of the Mediator.

The ADM is to investigate the matter and recover any costs if necessary.

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50. Irregular expenditure		
Opening balance	2,147,229	546,238
Add: Irregular Expenditure - current year	362,990	1,600,991
Less: Amounts condoned	(1,963,981)	-
	546,238	2,147,229

Incident

During 2013/14 approval for catering services of R53 500 was obtained through deviation. Council condoned this amount. Training services of R146 832 during 2013/14 were procured through the RFQ process from which only one response was received. Council condoned the amount. Council condoned an amount of R163 658 for services procured through the competitive bidding process.

During the 2011/12 financial year, an oversight to ensure that the tender would be over R10m and therefore a minimum of 30 days advertising period required. The contract value was R11 664 598 and the amount advertised was R1 550 991. Council resolved to condone/write this expenditure during 2013/14.

During the 2011/12 financial year, the procurement to emergencies were dispensed by the municipality of normal procurement procedures to the value of R50 000. This amount was condoned by Council during 2013/14.

During the 2010/11 financial year, breaches on contracts to the value of R546 238 were found. These were investigated and condoned by Council on 22 August 2014.

51. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	4,167,159	4,262,296
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PAYE and UIF

Current year subscription / fee	60,739,150	47,079,440
Amount paid - current year	(55,088,076)	(41,791,922)
	5,651,074	5,287,518

The balance represents PAYE and UIF deducted from the June 2014 payroll. The amount due was paid during July 2014 payroll. The amount due was paid during July 2014 and has been included in current liabilities

Pension and Medical Aid Deductions

Current year subscription / fee	100,608,335	80,947,656
Amount paid - current year	(100,608,335)	(80,947,656)
	-	-

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

Councillors' arrear consumer accounts

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

30 June 2014	Outstanding more than 90 days R	Total R
Councillor N Nonjaca	5,755	5,755
Councillor MJ Papu	5,396	5,396
Councillor TP Dwanya	8,956	8,956
	20,107	20,107

30 June 2013	Outstanding more than 90 days R	Total R
Councillor N Nonjaca	- 625	625
Councillor MJ Papu	- 1,106	1,106
Councillor TP Dwanya	- 13,832	13,832
Councillor M.P.Solani	- 154	154
	- 15,717	15,717

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2014	Highest outstanding amount	Aging (90+ days)
Councillor TP Dwanya	8,956	90
Councillor N Nonjaca	5,755	90
Councillor MJ Papu	5,396	90
	20,107	-

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident

Deviations	268,990,708	173,268,813
Breaches	-	11,984,971
	268,990,708	185,253,784

Non-Compliance with the Municipal Finance Management Act

In terms of DoRA, the Water Operating Subsidy Grant monthly reports for the first six months were only submitted during January 2014.

Bids awarded to family of employees in service of the state

In terms of the SCM regulations, any award above R2000 to family members of employees in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded on the declaration of interest form.

Connected Person and Position Held

N. Soga - Chief Financial Officer	-	96,250
Z. Poto - Engineering Officer	4,703	5,523
Mr Ngcobo - Senior Manager: Municipal Support Unit	42,946	-
T Mbali - Disaster Management Officer	6,100	-
S. Gqeba	23,600	-
	77,349	101,773

52. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 10% are explained below:

Statement of Financial Performance

Revenue

1. Service charges

The actual service charges billed for the year is below the budgeted amount as the first 6kl of water consumed was approved by Council for all consumers. This approval was not considered in the budget amount.

2. Rental of facilities and equipment

The variance is as a result of the escalations that was effected on the lease rentals during the current year review.

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52. Budget differences (continued)

3. Interest earned - external investments

Interest earned on the continuous favourable cash/investment balances during the year. Interest rates are linked to market conditions.

4. Other income

Other income includes an amount from the accumulated surplus to balance the budget.

5. Government grants and subsidies

Actual government grants received exceeds the budgeted amount due to the conditions of the MIG grant being met and transferred to revenue including the roll-over from the 2012/13 financial year.

6. Fines

The fines that were budgeted for include air pollution and waste management fines. There were none charged during the year.

7. Other income

This item includes the VAT portion of grants that is recognised as own revenue in accordance with National Treasury Circular No. 48. The budget figure assumes that all payments will be made to VAT vendors, however not all payments were made to VAT vendors.

Expenditure

8. Personnel

The under spending on employee costs is as a result of approved and budgeted posts not being filled for the full financial year.

9. Depreciation and amortisation

The depreciation expense is less than the budget as the amount anticipated for new schemes commissioned during the year was less.

10. Finance costs

The actual amount exceeds the budgeted amount due to the interest on the employee benefits being more than anticipated. The interest is based on the actuarial valuation reports received from the actuaries for the 2013/14 financial year.

11. Collection costs

The budget amount is based upon the estimated amount that would be paid to the external debt collectors for commission on debt collected. This amount was less than anticipated.

12. Repairs and maintenance

Under spending on repairs and maintenance is as a result of the anticipated repair not occurring. The budget amount includes an element of contingency and attempts to cater for unexpected repairs that may occur.

13. Contracted services

The leasing expenditure for office equipment such as fax machines and printers is less than the budgeted amount as the capital portions of the lease payments that have been classified as finance leases are offset against the lease liability in the statement of financial position.

14. General expenditure

Staff recruitment is under-spent as the budget was not utilised due to staff being recruited internally, hence recruitment costs that were initially catered for were not incurred.

Subsistence and travel is underspent as officials did not travel as envisaged and the municipality attempts to save costs where it can by travelling locally.

The budget allocated for internally funded projects was not fully spent during the year.

15. Gain/loss on sale of assets

Gain/loss on the disposal of assets is not budgeted for due its ad hoc nature and level of uncertainty.

Statement of Financial Position

1. Current investments

The investments have decreased as capital that matured during the year was not re-invested into the fixed deposit accounts, but were placed into a call account to ensure that money was readily available as the bank balance was decreasing rapidly.

Amathole District Municipality

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52. Budget differences (continued)

2. Receivables from exchange transactions

The actual service charges billed for the year are below the budgeted amount as the first 6kl of water consumed was approved by Council for all consumers. This approval was not considered in the budget amount. Hence the receivables are less.

3. Receivables from non-exchange transactions

The increase is a result of sundry debtors increasing.

4. VAT receivable

VAT receivable increased as more input VAT was claimed due to an increase in spending. This can be evidenced in the decreased of the conditional grants, where MIG has been fully spent.

5. Cash and cash equivalents

The cash and cash equivalents have decreased as a result of increased spending especially on grants.

6. Property, plant and equipment

The property, plant and equipment increased during the current year as a result of expenditure on infrastructure assets.

7. Intangible Assets

The increase is a result of software purchased during the year under review.

8. Payables from exchange transactions

Trade creditors increased as a result of increased spending. In addition the leave provision increased as a result of the number of days due increasing.

9. Unspent conditional grants

The significant decrease is as a result of increased spending of the grant allocations by the municipality. With almost all the DoRA gazetted grants being fully spent.

10. Provisions

Provisions have increased as the current portion of the employee benefit obligation has increased based upon the report obtained from the actuaries.

11. Employee benefits

The employee benefit obligation has increased based upon the report obtained from the actuaries.

Cash flow statement

Operating activities

The net cash flow from operating activities reflects an outflow, due to the service charges being less than anticipated.

Investing activities

The net cash flow from investing activities variance is as a consequence of investment capital not being re-invested into fixed deposit accounts, but rather into call accounts in order to be readily available.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters as well as an adjustment to the budget.

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52. Budget differences (continued)

Income

The approved income budget increased as a result of:

Approved roll-overs on unspent conditional grants at the end of 2012/13 financial year.

Unspent balances on internally funded projects from 2012/13 were also rolled over to the 2013/14 financial year.

New grant allocation being Rural Household Infrastructure Grant.

Even though the income budget increased overall, there was also a decrease in the Rural Bulk Infrastructure Grant.

Expenditure

The expenditure budget was increased for Depreciation and Debt Impairment during the budget adjustments process. In addition the Salaries and wages budget of Community Services was increased.

Capital

The approved capital budget was reduced due to the following:

The Rural Road Asset Management Grant was reclassified as an operating grant.

The budget that was initially allocated for the purchase of motor vehicles was transferred to operating expenditure as a consequence of the approval and implementation of the Essential User Scheme.

53. Repairs and maintenance

Water and sanitation	37,894,454	11,007,370
Buildings	4,092,122	4,156,122
Vehicles	541,839	2,724,097
Tools and equipment	1,089,392	1,319,864
Office furniture and equipment	23,235	33,744
Computers	113,889	3,010
Others	4,731,021	683,333
	48,485,952	19,927,540

54. Interest earned - outstanding receivables

Receivables - service charges	31,908,310	23,076,217
Financial assets	387	794
	31,908,697	23,077,011

The comparative figure has been restated. Refer to note 44.

55. Gain/(Loss) on disposal of asset

Gain/(Loss) on sale of infrastructure, plant and equipment	2,055,352	(1,379,502)
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56. Grant performance narrations

National Government Grants

1. Financial Management Grant (FMG)

The grant was fully spent during the year mainly on training initiatives relating to Minimum Competency Training.

2. Expanded Public Works Programme (EPWP)

The grant was fully spent during the year, which included stipends for internship .

3. Municipal Systems Improvement Grant (MSIG)

Several projects have been completed during the year, an application has been submitted to the funder to approve the utilisation of the savings for the promulgation of By-laws of the local municipalities.

4. Municipal Infrastructure Grant (MIG)

The grant allocation for the current year and the roll-over amount were fully spent.

5. Municipal Water Infrastructure Grant (MWIG)

The grant allocation for the current year was fully spent.

6. Rural Housing Infrastructure Grant (RHIG)

These entail multi-year projects, with additional funding being available in the 2014/15 financial year.

7. Road Asset Management System (RAMS)

These entail multi-year projects, with additional funding being available in the 2014/15 financial year.

8. Flood Relief Projects

The remaining balance from these projects will be spent during the first quarter of the 2014/15 financial year.

9. Provincial Government Grants

Phase 1 and 2 of the Ibeka water supply project is complete with only phase 3 remaining. Mncwasa water supply project to be completed in 2014/15. The Xora east water supply project fully spent.

10. DWA Support - Drought Issues

The Ground water investigation project complete.

11. Development Planning Funds

Funding was received from the Provincial Departmental of Local Government through Business Plans that were requesting funding. All the projects are multi year projects. Application for roll-over has been made to the funder.

12. Provincial Housing Project Funds

Prudoe, Dongwe, Kubusi and Lillyvale projects are complete. The remaining projects are multi year projects. Application for roll-over has been made to the funder.

13. Keiskamma Betterment (DLA)

Currently implementing the projects as per the development plan. These are multi year in nature and application has been made to the funder for a roll-over.

14. Elliotdale Breaking New Grounds (BNG) Pilot Funds

The Beneficiary Administration project is complete. The environmental impact assessment and geo-hydrology are multi year projects and application for roll over has been made to the funder.

15. DEDEA

The Eastern Cape information initiative support project is complete. The Bawa Falls and Elliotdale Brick making projects are multi year projects and application has been made to the funder.

16. Public Transport Facility Grant

An application for roll over will be made to the funder and spent during the 2014/15 financial year.

17. Mbashe Local Municipality

The remaining funds are to be used for service installation during 2014/15.

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56. Grant performance narrations (continued)

18. Roof Top Rain Water Supply

Funds will be used on rain water harvesting in 2014/15.

19. Water Service Provider and Water Demand Management

The project for the business plans and the Adelaide Oxidation ponds are complete. The remaining project balances will be utilised in the 2014/15 year.

20. Support on Local Economic Development Projects

The balance on all the projects will be used in 2014/15 and application for roll over has been made to the funder.

21. Capacity Building for Local Municipalities

The funds on the Capacity building project will be used for workshops in 2014/15 depending on the approval from the funder.

22. DWA Funds

DWA refurbishment project is complete, with new funding being available in 2014/15. Application for roll over has been made on the projects that are not fully spent at year end.

23. Chanta Development Fund

Application has been made to the funder for the balance of the funds to be rolled over.

24. Tourism Projects

The Development Craft Centre project and the Tourism Marketing Strategy projects were completed. The Co-operative Specialist project has unspent balance for which an application has been made to the funder.

The balance on the Tourism Survey will be used for the presentation on the outcomes of the study conducted.

The Nxuba Dam Chalets Development balance will be used to register the entity and for a workshop.

25. Disaster and Fire Services

The project to Capacitate and resource the Centre was completed during 2014/15.

Other grants

26. Landfill Sites

The Eastern Region Solid Waste project was completed during 2014/15.

27. SETA

The funds are committed for the payment of stipends of four LGSETA interns for 2014/15. The roll over has been applied for.

28. Tractor Management

All funds remaining on these projects will be spent during 2014/15. The application for roll over has been made to the funder

29. Other

The IDP Local Municipalities, Vuna Awards, Public Awareness, Bucket Eradication, Technical Assistance in Developing the District profile and MK Veterans projects are all complete.

For additional information on unspent amounts refer to Note 28 and Annexure 1