NKONKOBE
MUNICIPALITY

Nkonkobe Municipality: EC127
Group Annual Financial Statements
for the year ended 30 June 2015

General Information

Mayoral committee	
Mayor	CLLR A.W Ntsangani
	Speaker: CLLR . N.P. Mlamla
	Chief Whip: CLLR S.L.Ngwentle
	CLLR S.P. Matyhila
	CLLR M.E. Mgengo
	CLLR L. Sinyongo
	CLLR M.J.Makeleni
Councillors	CLLR A. Stofile
	CLLR E. Bantam
	CLLR. V.Ndevu
	CLLR S. Kley
	CLLR. Z. Mpendu
	CLLR. T.E. Matu
	CLLR. N. Rulashe
	CLLR. N.Mbalo
	CLLR. J. Kanie
	CLLR. X. Mamase
	CLLR. T. Dwanya
	CLLR. N. Gora
	CLLR. N. Sango-Blackie
	CLLR T. Mjo
	CLLR M.Nyangintaka
	CLLR S.W. Macakela
	CLLR . M.O. Rawana
	CLLR. A. Booysen
	CLLR. M. Ncume
	CLLR T. Ngaye
	CLLR X.Dyantyi
	CLLR H. Xelelwa
	CLLR . C.N. Daniels
	CLLR S.A. Penu
	CLLR. B. Malawu
	CLLR Z.L. Papu
	CLLR. P. Sixolo
	CLLR. A. Kganedi
	CLLR. M.D.M. Nyenyeku
	CLLR C.N. Guzi
	CLLR K.Baliso
	CLLR N. Zibonda
	CLLR Matyholo
Grading of local authority	Category B Grade 3 Low Capacity Municipality
Chief Finance Officer (CFO)	Mrs B Lubelwana
Chief Executive Officer	Mr M Mali
Acting Accounting Officer	Mr L Menze
Business address	8 Somerset Street
	Fort Beaufort

General Information

	5720
Postal address	PO Box 36 Fort Beaufort 5720
Bankers	ABSA
Auditors	Auditor General of South Africa
Secretary	Ms P Madotyeni
Contact Number	046 645 7400
Fax Number	046 645 2562
E-mail address	pmadotyeni@nkonkobe.gov.za

Index

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
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)

Accounting Officer's Report

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

The group 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 group 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 group 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 2016 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

Dissolving and merger of Nkonkobe Municipality with Nxuba Municipality
The Demarcation Board has suggested an amalgamation of Nkonkobe Local Municipality with Nxuba Local Municipality. Should the suggested merger be successful, both municipalities will be dissolved and a new municipality formed. The assets and liabilities of the municipality will be transferred on a going concern basis to the newly established municipality. The realisation of the assets transferred will be sufficient to settle the liabilities transferred. Accordingly, the financial statements will be prepared on accounting policies applicable to a going concern. The effective date of the merger is not yet determined

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors

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

Subsequent events.
On the 22 July 2015, the municipality recieved a report that the roofing of Hala community hall had been blown away during a storm. The carrying amount of the the asset in question is R1 657 578.00. the municipality is in the process of replacing the roofing.

The Muncipailty has appointed a fully fledged and functional audit committee in May 2015. As at year end, the audit committee both current and previous had not held the legislated number of meetings per annum. Although the current audit committee has recently been appointed, their presence and inputs are already being felt in the form of the review of annual financial statements and the general assesment of the processes of the Municipality.

The group annual financial statements set out on pages 6 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2015 and were signed by him.

Accounting Officer's Report

Mr L Menze
Acting Municipal Manager

Mayor's Foreword

It gives me great pleasure to present the group annual financial statements for the 2014/2015 financial year. The Municipal Finance Management Act provides that a municipality must prepare the group annual financial statements of the institution and, within two months after the end of the financial year to which those statements relate, submit them to the Auditor General for auditing.
During the last financial year we presented improved group financial statements to Council. This year, as we endeavour to make further improvements to our group financial statements, as the municipality we have tried our utmost best to adhere to the Generally Recognised Accounting Practices when preparing the group finanial statements - to produce reports attuned to specific needs of the Nkonkobe community.
The group annual financial statements for the year under review 2014/2015 - portray a picture of continuos improvement from the previous financial year. This is with regards to financial viability and debt management of the municipality. As an institution with a thin revenue base we have devised strategies to enhance our revenue, so that we are able to move away from grant dependency and become a self sufficient municipality. Together with devising strategies to improve our thin revenue base, we are also attentive to the state of our records, particulalry with debtors, in providing for and writting off bad debts. This is an attempt to ensure that the group financial statements fairly present the financial state of Nkonkobe Municipality.
To this end, we continue to monitor the performance and successes of the technical unit as it progresses to do most of the projects inhouse. As some of the projects are funded through our own revenue, we have endeavoured to ensure that new projects are kept at a minimum so as to not overburden our already stretched internal revenue base. As a result, I can safely say that the current group financial statements are a true reflection of all the institution's financial activities in the year under review.
The challenges that the municipality faced before should be a thing of the past and as such, we firmly believe that we can do better to change the situation from qualified to clean audit.
We are especially pleased to have a new fully fledged and functional audit committee which contintues to enhance the performance and output of our internal audit unit.

Mayor: AW Ntsangani

Statement of Financial Position as at 30 June 2015

Figures in Rand		Note(s)	2015	2014 Restated*
Assets				
Current Assets				
Inventories	30.20	1.10&7	1 077 457	686 705
Receivables from exchange transactions	31.20	8	8 519 409	9 658 294
Receivables from non-exchange transactions	33.20	9	71 853 220	49 652 954
VAT receivable	31.20	10	4 467 310	2 455 629
Cash and cash equivalents	32.20	11	6 195 083	6 115 210
			92 112 479	**68 568 792**
Non-Current Assets				
Investment property	21.20	3	18 322 500	21 221 700
Property, plant and equipment	20.20	4	290 140 051	292 335 943
Intangible assets	23.22	5	320 717	328 794
			308 783 268	**313 886 437**
Total Assets			**400 895 747**	**382 455 229**
Liabilities				
Current Liabilities				
Finance lease obligation	25.29	13	9 768 886	4 897 346
Payables from exchange transactions	51.20	16	78 455 199	76 410 249
Unspent conditional grants and receipts	43.20	14	9 258 525	7 447 035
Other liability	43.27		944 229	289 299
Consumer Deposists	43.29	17	1 371 746	1 268 830
			99 798 585	**90 312 759**
Non-Current Liabilities				
Finance lease obligation	25.29	13	8 945 101	9 384 209
Employee benefit obligation	27.22	6	18 398 616	18 479 000
Provisions	52.20	15	15 340 318	17 032 276
Other liability	43.27		643 581	-
			43 327 616	**44 895 485**
Total Liabilities			**143 126 201**	**135 208 244**
Net Assets			**257 769 546**	**247 246 985**
Reserves				
Revaluation reserve	40.22	12	2 659 100	2 659 100
Accumulated surplus	40.24		255 110 446	244 587 885
Total Net Assets			**257 769 546**	**247 246 985**

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		87 867	-
Service charges	19	40 837 680	37 666 131
Rental of facilities and equipment	20	273 605	287 905
Other income	21	3 588 485	2 500 296
Interest received	22	5 929 367	4 171 973
Total revenue from exchange transactions		**50 717 004**	**44 626 305**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	57 398 732	35 299 594
Licences or Permits		2 766 637	2 765 651
Transfer revenue			
Government grants & subsidies	25	148 488 721	139 946 227
Fines, Penalties and Forfeits		42 950	196 955
Total revenue from non-exchange transactions		**208 697 040**	**178 208 427**
Total revenue	18	**259 414 044**	**222 834 732**
Expenditure			
Employee related costs	26	(90 373 772)	(84 607 436)
Remuneration of councillors	27	(13 067 033)	(12 298 199)
Depreciation and amortisation	28	(25 169 669)	(28 464 993)
Impairment loss/ Reversal of impairments	29	(9 643 512)	-
Finance costs	30	(6 251 359)	(1 515 354)
Debt Impairment	31	(10 794 164)	(23 158 529)
Repairs and maintenance		(17 787 630)	(7 965 524)
Bulk purchases	33	(33 050 589)	(27 008 479)
Grants and subsidies paid	24	(6 252 644)	(9 142 095)
Sale of goods: Cost of Sales		(190 788)	-
General Expenses	34	(35 502 685)	(53 317 556)
Total expenditure		**(248 083 845)**	**(247 478 165)**
Operating surplus (deficit)		**11 330 199**	**(24 643 433)**
Loss on disposal of assets and liabilities		(213 641)	(761 384)
Fair value adjustments	36	(594 000)	1 927 100
		(807 641)	**1 165 716**
Surplus (deficit) for the year		**10 522 558**	**(23 477 717)**

* See Note 40

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2013	**2 659 100**	**268 065 602**	**270 724 702**
Changes in net assets			
Surplus for the year	-	(23 477 717)	(23 477 717)
Total changes	-	(23 477 717)	(23 477 717)
Restated* Balance at 01 July 2014	**2 659 100**	**244 587 888**	**247 246 988**
Changes in net assets			
Surplus for the year	-	10 522 558	10 522 558
Total changes	-	10 522 558	10 522 558
Balance at 30 June 2015	**2 659 100**	**255 110 446**	**257 769 546**

* See Note 40

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		54 608 965	23 639 896
Grants		133 486 360	144 334 415
Interest income		5 927 311	4 171 973
Other Income		6 737 724	5 724 002
		200 760 360	177 870 286
Payments			
Employee costs		(103 446 142)	(96 905 633)
Suppliers		(41 540 832)	(31 536 048)
Finance costs		(6 251 359)	(1 515 354)
Other payments		(22 910 923)	(45 227 661)
		(174 149 256)	(175 184 696)
Net cash flows from operating activities	38	**26 611 104**	**2 685 590**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(32 112 126)	(45 190 510)
Proceeds from sale of property, plant and equipment	4	(213 641)	(761 384)
Proceeds from sale of investment property	3	2 305 200	(3 545 800)
Purchase of other intangible assets	5	(452 012)	(269 465)
Proceeds from sale of financial assets		-	1 927 100
Net cash flows from investing activities		**(31 066 579)**	**(47 840 059)**
Cash flows from financing activities			
Movement in Finance Lease-Current		(439 108)	9 231 905
Movement in consumer deposits		102 916	70 579
Movement in Finance Lease-Non Current		4 871 540	4 624 603
Net cash flows from financing activities		**4 535 348**	**13 927 087**
Net increase/(decrease) in cash and cash equivalents		**79 873**	**(31 227 382)**
Cash and cash equivalents at the beginning of the year		6 115 210	5 682 487
Cash and cash equivalents at the end of the year	11	**6 195 083**	**(25 544 895)**

* See Note 40

Nkonkobe Municipality

Group Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	-	-	**-**	87 867	**87 867**	16
Service charges	45 810 700	(9 411 965)	**36 398 735**	40 837 680	**4 438 945**	2
Other own revenue	13 287 924	(4 637 301)	**8 650 623**	3 862 090	**(4 788 533)**	5
Interest received	8 725 000	(4 092 637)	**4 632 363**	5 929 367	**1 297 004**	3
Total revenue from exchange transactions	**67 823 624**	**(18 141 903)**	**49 681 721**	**50 717 004**	**1 035 283**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	30 580 058	3 731 483	**34 311 541**	57 398 732	**23 087 191**	1
Licences or Permits (Non-exchange)	-	-	**-**	42 950	**42 950**	5
Transfer revenue						
Government grants & subsidies	118 302 500	7 807 000	**126 109 500**	148 488 721	**22 379 221**	4
Licences or Permits	-	-	**-**	2 766 637	**2 766 637**	5
Total revenue from non-exchange transactions	**148 882 558**	**11 538 483**	**160 421 041**	**208 697 040**	**48 275 999**	
Total revenue	**216 706 182**	**(6 603 420)**	**210 102 762**	**259 414 044**	**49 311 282**	
Expenditure						
Employee costs	(69 895 031)	(21 104 019)	**(90 999 050)**	(90 373 773)	**625 277**	6
Remuneration of councillors	(14 525 300)	1 942 028	**(12 583 272)**	(13 067 033)	**(483 761)**	7
Impairment loss	-	-	**-**	(9 643 512)	**(9 643 512)**	14
Depreciation & asset impairment	(23 840 280)	(440 349)	**(24 280 629)**	(25 169 669)	**(889 040)**	9
Debt impairment	(12 672 000)	-	**(12 672 000)**	(10 794 164)	**1 877 836**	8
Finance costs	-	-	**-**	(6 251 359)	**(6 251 359)**	10
Repairs and maintenance	(7 049 990)	1 712 496	**(5 337 494)**	(17 787 630)	**(12 450 136)**	15
Bulk purchases	(22 100 229)	(5 488 619)	**(27 588 848)**	(33 050 589)	**(5 461 741)**	11
Transfers and Subsidies	(14 000 000)	4 797 849	**(9 202 151)**	(6 252 644)	**2 949 507**	12
Sale of goods/Cost of Sales	-	-	**-**	(190 788)	**(190 788)**	16
General Expenses	(53 076 350)	8 213 260	**(44 863 090)**	(35 502 685)	**9 360 405**	13
Total expenditure	**(217 159 180)**	**(10 367 354)**	**(227 526 534)**	**(248 083 846)**	**(20 557 312)**	
Operating surplus	**(452 998)**	**(16 970 774)**	**(17 423 772)**	**11 330 198**	**28 753 970**	
Loss on disposal of assets and liabilities	-	-	**-**	(213 641)	**(213 641)**	
Fair value adjustments	-	-	**-**	(594 000)	**(594 000)**	
	-	**-**	**-**	**(807 641)**	**(807 641)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Surplus before taxation	**(452 998)**	**(16 970 774)**	**(17 423 772)**	**10 522 557**	**27 946 329**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(452 998)**	**(16 970 774)**	**(17 423 772)**	**10 522 557**	**27 946 329**	

Accounting Policies

1. Presentation of Group Annual Financial Statements

The group 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 group 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 with paragraphs 8, 10 and 11 of GRAP 3 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.

All amounts have been rounded off to the nearest rand in accordance with GRAP 1 paragraph 54 (e).
The principal accounting policies, applied in the preparation of these annual financial statements, are set out below.These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in note 46 “Prior period errors".

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These group 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.

Dissolving and merger of Municipality

The Demarcation Board has suggested an amalgamation of Nkonkobe Local Municipality with Nxuba Local Municipality. Should the suggested merger be successful, both municipalities will be dissolved and a new municipality formed. The assets and liabilities of the municipality will be transferred on a going concern basis to the newly established municipality. The realisation of the assets transferred will be sufficient to settle the liabilities transferred.
Accordingly, the financial statements will be prepared on accounting policies applicable to a going concern. The effective date of the merger is not yet determined.

1.3 Investment property

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 economic benefits or service potential 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 an on-exchange transaction (i.e.where it acquired the investment property for no or a nominal value) or taken on at a deemed 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 entity 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..

1.3 Investment property (continued)

Fair value

Investment property is measured using the fair value model. This entails determining the fair value of investment properties on a regular basis.To the extent that the fair value model is applied investment property is not depreciated. Fair value gains / losses that result from the revaluation are recognised in the Statement of Financial Performance.

The assumptions for determining the fair value of the Investment property is set out in note 3 of the Financial Statements

Derecognition

An Investment Property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property.All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

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.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) commencement of development with a view to sale, for a transfer from investment property to inventories;
(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.
When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:
Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) commencement of development with a view to sale, for a transfer from investment property to inventories;
(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

1.4 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.

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.
Then an item of property, plant and equipment 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 property, plant and equipment 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.

Property, plant and equipment 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.

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 in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Depreciation method	Average useful life

1.4 Property, plant and equipment (continued)

Land	Straight line	indefinite life
Buildings	Straight line	15-50
Sewage Mains & Purification Works	Straight line	15-80
Plant and machinery	Straight line	5-15
Furniture and fixtures	Straight line	6-10
Motor vehicles	Straight line	5-10
Office equipment	Straight line	6
IT equipment	Straight line	3
Computer software	Straight line	3
Specialised Plant and Equipment	Straight line	10
Cemetries	Straight line	15-50
Community Halls	Straight line	15-50
Public Conveniences	Straight line	15-50
Recretional Facilities	Straight line	15-50
Parks and Gardens	Straight line	15-50
Roads and Paving	Straight line	3-50
Park facilities	Straight line	15-50
Specialised vehicles	Straight line	6
Solid Waste/Landfill Sites	Straight line	20-100
Water network	Straight line	10-50
Heritage	Straight line	indefinite life
Electricity Transmission Network	Straight line	10-80

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

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

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for certain Machinery and Equipment and Transport assets with significant carrying values. For Machinery and Equipment and Transport (AboveR5,000) the residual value and the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance. Minor assets (BelowR5,000) are recognised and depreciated annually to R1 and are included in the asset register mainly for completeness and monitoring purposes.

1.5 Intangible assets

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

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

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations..

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

A class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements..

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Accounting Policies

1.6 Heritage assets (continued)

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.If a municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.6 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Cash and Cash Equivalents

1.8 Financial instruments

Initial Recognition.

The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting..

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities, financial assets or residual interests inconformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e.to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial Measurement

When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value,transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Derecognition

A financial liability is derecognised when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the terms of an existing financial liability are modified, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

Offsetting

The entity does not off set financial assets and financial liabilities in the Statement of Financial Position unless a legal right ofset-off exists and the parties intend to settle on a net basis.

Trade and Other receivables

1.8 Financial instruments (continued)

Trade and other receivables are categorised as financial assets: loans and receivables and 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 and subsequently carried at amortised cost. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on a review of all outstanding amounts atyear-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30days overdue) a reconsidered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. The amount of the loss is recognised in the Statement of Financial Performance with in operating expenses.When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance, 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.

All trade and other receivables are assessed atleast annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on are view of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value

The amount of the loss is recognised in the Statement of Financial Performance with in operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Bad debts are writtenoff in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from there porting date are classified as current. Interest is charged on overdue accounts.

Financial Assets at amortised cost.

Cash includes cash on hand (including petty cash) and cash with banks(including call deposits).Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, 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, deposits held on call with banks, net of bank overdrafts.The municipality categorises cash and cash equivalents as financial assets.

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.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost

1.9 Leases

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

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

1.9 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

The major class of asset being leased is Land and Buildings in Middlerift. Certain of the municipality's property is held to generate rental income.Lease agreements arenon-cancell able and have terms from 3 to 6 years.There are no contingent rents receivable. The major class of asset being leased is Land and Buildings in Middlerift. At the reporting date the entity had contracted with tenants for the following future minimum lease payments: Certain of the municipality's property is held to generate rental income.Lease agreements are non-cancellable and have terms from 5 years.There are no contingent rents receivable. The major class of asset being leased is Vacant Land in Stockenstroom. At the reporting date the entity had contracted with tenants for the following future minimum lease payments: Certain of the municipality's property is held to generate rental income.Lease agreements are non-cancellable and have terms from 5 years.There are no contingent rents receivable. The major class of asset being leased is Land and Buildings in Alice. At the reporting date the entity had contracted with tenants for the following future minimum lease payments: Certain of the municipality's property is held to generate rental income.Lease agreements are non-cancellable and have terms from 5 years.There are no contingent rents receivable. The major class of asset being leased is Land and Buildings in Alice. At the reporting date the entity had contracted with tenants for the following future minimum lease payments: Certain of the municipality's property is held to generate rental income.Lease agreements are non-cancellable and have terms from 5 years.There are no contingent rents receivable. The major class of asset being leased is Vacant Land in Alice. At the reporting date the entity had contracted with tenants for the following future minimum lease payments: Certain of the municipality's property is held to generate rental income.Lease agreements are non-cancellable and have terms from 5 years.There are no contingent rents receivable. At the reporting date the entity had contracted with tenants for the following future minimum lease payments:.

Operating leases - lessee

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows: Leases are negotiated for an average term of two years and rentals are fixed for an average of two years. No contingent rent is payable. Operating Leases consists of the following:
Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable. The major category of asset leased is network cables. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years. No contingent rent is payable. The major category of asset leased is photocopying machines. At the reporting date the entity had outstanding commitments under non-cancellable operating leases, which fall due as follows:

1.10 Inventories

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

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

1.10 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.12 Employee benefits

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

Accounting Policies

1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

1.12 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.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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 or similar distributions 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 entity account 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 amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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 group annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.12 Employee benefits (continued)

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 entity 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.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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 entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity 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.

1.12 Employee benefits (continued)

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.

1.13 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.13 Provisions and contingencies (continued)

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.13 Provisions and contingencies (continued)

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.14 Revenue from exchange transactions

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

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

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

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.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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

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

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

1.17 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, 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

1.18 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of anal location 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.

1.19 Fruitless and wasteful expenditure

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

1.20 Irregular expenditure

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

1.21 Budget information

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

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

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

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

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

The group 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.

Accounting Policies

1.22 Related parties

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

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

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

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

Municipal Entity.

Nkonkobe Economic Development Agency is 100% owned by the Nkonkobe Local Municipality

The municipality provides a transfer subsidy to the development agency to assist with its operations.In addition the municipality also settles the entity's audit fees on its behalf.

Members of key management:

Municipal manager (Acting):	Mr L Menze
Chief Financial Officer :	Mrs B Lubelwana
Strategic and LED: Senior Manager	Mr L Menze
Engineering: Senior Manager	Mr Z Nkosinkulu
Corporate Services: Senior Manager	Mrs N Fololo
Chief Executive Officer:	Mr M Mali
Finance Manager :	Mrs N Ketwa

1.23 Events after reporting date

No events have occurred after 30 June 2015 which necessitates adjustment or disclosure within the annual financial statements.

1.24 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (ActNo.56of2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable.The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

Notes to the Group Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

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

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 105: Transfers of functions between entities under common control

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

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

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 group annual financial statements.

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

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

Notes to the Group Annual Financial Statements

2. New standards and interpretations (continued)

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

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

GRAP 107: Mergers

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

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

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

GRAP 20: Related parties

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

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

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

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

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

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

Notes to the Group Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The standard elaborates on the definitions and identification of:

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the group annual financial statements.

GRAP32: Service Concession Arrangements: Grantor

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP108: Statutory Receivables

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

Notes to the Group Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

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

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

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

3. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	18 322 500	-	18 322 500	21 221 700	-	21 221 700

Reconciliation of investment property - 2015

	Opening balance	**Additions**	**Disposals**	**Total**
Investment property	21 221 700	(594 000)	(2 305 200)	18 322 500

Reconciliation of investment property - 2014

	Opening balance	**Fair value adjustments**	**Total**
Investment property	17 675 900	3 545 800	21 221 700

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
Investment property consists mainly of vacant land. All items of investment property were fair valued by a registered valuer. Methodology and details of valuation are available at the registered office of the municipality

4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	7 657 400	-	7 657 400	5 352 200	-	5 352 200
Buildings	57 914 326	(4 388 177)	53 526 149	57 914 326	(3 897 819)	54 016 507
Plant and machinery	39 270 046	(14 981 065)	24 288 981	28 999 830	(7 952 731)	21 047 099
Furniture and fixtures	3 876 470	(3 016 446)	860 024	4 391 052	(3 013 067)	1 377 985
Motor vehicles	10 606 147	(9 930 939)	675 208	11 354 832	(8 967 389)	2 387 443
IT equipment	4 648 913	(2 502 398)	2 146 515	2 577 731	(1 767 450)	810 281
Infrastructure	155 406	-	155 406	155 406	-	155 406
WIP	43 568 418	-	43 568 418	28 869 728	-	28 869 728
Roads	194 767 237	(94 386 476)	100 380 761	194 767 237	(83 327 404)	111 439 833
Park facilities	14 425 901	(3 527 758)	10 898 143	14 425 901	(2 992 387)	11 433 514
Solid Waste	12 059 988	(10 808 244)	1 251 744	12 218 377	(382 214)	11 836 163
Electricity Transmission Network	53 862 817	(9 131 515)	44 731 302	51 265 273	(7 655 489)	43 609 784
Total	**442 813 069**	**(152 673 018)**	**290 140 051**	**412 291 893**	**(119 955 950)**	**292 335 943**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	5 352 200	2 305 200	-	-	-	7 657 400
Buildings	54 016 507	-	-	-	(490 359)	53 526 148
Plant and machinery	21 047 099	10 270 216	-	-	(7 028 334)	24 288 981
Furniture and fixtures	1 377 985	233 977	(172 632)	-	(579 306)	860 024
Motor vehicles	2 387 443	195 075	-	-	(1 907 310)	675 208
IT equipment	810 281	2 396 517	(30 986)	-	(1 029 297)	2 146 515
Infrastructure	155 406	-	-	-	-	155 406
Work In Progress (WIP)	28 869 728	20 503 895	-	(5 805 205)	-	43 568 418
Roads	111 439 833	-	-	-	(11 059 072)	100 380 761
Park facilities	11 433 514	-	-	-	(535 371)	10 898 143
Solid Waste	11 836 163	-	-	-	(10 584 419)	1 251 744
Electricity Transmission Network	43 609 784	2 597 544	-	-	(1 476 026)	44 731 302
	292 335 943	**38 502 424**	**(203 618)**	**(5 805 205)**	**(34 689 494)**	**290 140 050**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Total
Land	5 352 200	-	-	-	-	-	5 352 20
Buildings	47 727 505	-	(2 735 886)	10 171 904	-	(1 147 016)	54 016 50
Plant and machinery	9 190 777	15 368 045	(20 035)	-	-	(3 491 688)	21 047 09
Furniture and fixtures	1 597 883	301 454	(206 707)	-	-	(314 645)	1 377 98
Motor vehicles	4 212 033	888 846	(417 655)	-	-	(2 295 781)	2 387 44
IT equipment	938 061	396 547	(48 736)	-	-	(475 591)	810 28
Infrastructure	-	155 406	-	-	-	-	155 40
Work In Progress (WIP)	13 760 454	25 281 178	-	(10 171 904)	-	-	28 869 72
Roads	133 783 356	(4 460 224)	(1 262 128)	-	-	(16 621 171)	111 439 83
Park facilities	12 375 516	-	(338 640)	-	-	(603 362)	11 433 51
Solid Waste	15 377 887	-	-	-	(3 894 412)	352 688	11 836 16
Electricity Transmission Network	45 225 939	-	-	-	-	(1 616 155)	43 609 78
	289 541 611	**37 931 252**	**(5 029 787)**	**-**	**(3 894 412)**	**(26 212 721)**	**292 335 94**

Included in Plant Machinery and Equipment is items of plant purchased on a hire purchase agreement from Laman Financial Services

Restrictions on the use of plant are as follows;
Use of goods:
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
Should it be required by law, you and any other person who uses or operates the goods must be fully qualified and/or licensed in respect of such goods.
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
You may not modify the goods in any way without Lamans prior approval
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
You may not take the goods out the republic of South Africa without prior written consent from Laman
Termination by passage of time:
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
You sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater.
Cession and Assignment:
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
You may not cede any of youre rights or assign youre obligations to any party without the prior written approval of Laman.
Insurance:
· You must sell the goods on behalf of laman for an amount not less than the residual value plus VAT or the market value whichever is greater
You at all times keep goods insured with a registered insurer approved by Laman against all insurable risks, loss and damage to the value of the principal debt reflected in the first schedule.

4. Property, plant and equipment (continued)

Heritage assets

The municipality holds heritage assets, but was unable to obtain fair values of such assets. These assets are disclosed herein in terms of GRAP 103.17 Wich states that; If an entity holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

Asset Description	Location
Dr John Knox Bokwe Graves	Alice
Fort Woburn	Alice
Nkonkobe Garden of Rememberance	Alicet
Fort Armstrong	Balfour
Maqoma Great Place	Balfour
Ntsikana Grave	Balfour
Oliver Shreiner House	Balfour
Fort Beaufort Historical Museum	Fort Beaufort
Fort Fordyce Fallen Site	Fort Beaufort
Infanthanksttry Barracks	Fort Beaufort
Lake's Man Fort	Fort Beaufort
Lord Charles Somerset Houuse	Fort Beaufort
Mansonic Lodge	Fort Beaufort
Martello Tower	Fort Beaufort
Mater Hill	Fort Beaufort
Millitary Museum	Fort Beaufort
Military Hospital	Fort Beaufort
Officers Quarters	Fort Beaufort
The Fort	Fort Beaufort
The Officers Mess	Fort Beaufort
Ecology Shrine	Hogback
Fort Michel	Seymour
Eland Post	Seymour
Christmas Day Massacre Memorial	Woburn Village
Tyali's Great Place	Woburn Village
The Presidency Sundial	Woburn Village

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

4. Property, plant and equipment (continued)

Nontetha's Grave	Middledrift

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.

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

5. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	1 257 699	(936 982)	320 717	805 687	(476 893)	328 794

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

6. Employee benefit obligations

Defined benefit plan

The defined benefit plan is focused on the liability that the municipality faces in respect of employees and continuation members currently covered by health care arrangements
The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.
Upon retirement, an employee may continue membership of the medical scheme.
In service members will receive a post retirement subsidy of 70% of the contribution payable. Widows and orphans of eligible in service members are entitled to receive 60% subsidy on and after the death in service of an employee. All continuation members currently receive a 70% subsidy. Upon a member's death-inretirement, the surviving dependants will continue to receive the same 70% subsidy

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

	2015	2014
Post employment medical benefits	18 398 616	18 479 000

Medical benefits	2015	2014	2013	2012
Present value of unfunded obligations	18 398 616	18 479 000	13 381 304	12 445 195
Total present value of obligations	18 398 616	18 479 000	13 381 304	12 445 195
Unrecognised past service costs	-	-	-	-
(Asset)/Liability for defined benefit obligations in the statement of financial position	**18 398 616**	**18 479 000**	**13 381 304**	**12 445 195**

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

	2015	2014
Opening balance	18 479 000	13 381 304
Benefits paid	(546 914)	(168 854)
Net expense recognised in the statement of financial performance	466 530	5 266 550
	18 398 616	**18 479 000**

Net expense recognised in the statement of financial performance

	2015	2014
Current service cost	1 306 328	942 574
Interest cost	1 677 566	1 193 200
Actuarial (gains) losses	2 886 292	3 130 776
Total Expense	**5 870 186**	**5 266 550**

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2015	2014
Discount rates used	9,06 %	9,18 %
Health care cost inflation rate	8,13 %	8,34 %
Net effective discount rate	0,86 %	0,97 %
Average retirement age	63,00	63,00
Continuation of membership at retirement	100,00 %	100,00 %
Proportion assumed married at retirement	90,00 %	90,00 %
Mortality during employment: SA 85-90	-	-
Mortality post-retirement: PA(90) -2	-	-

Withdrawal from service (sample annual rates)		Age	Female	Male
		20	13 %	13 %
		30	11 %	11 %
		40	6 %	6 %
		50	3 %	3 %
	>	55	-	-
		195	**33**	**33**

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

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.

Assumption	Change	In-service	Continuation	Total	% Change
Central Assumptions	-	14	5	18	-
Health care inflation	1	17	5	22	20
	(1)%	11	4	16	(16)
Discount Rate	1 %	11	4	16	(15)
	(1)%	17	5	22	20
Post-retirement mortality in years	(1)	14	5	19	4
Average retirement age	(1)	15	5	20	6
Continuation of membership at retirement	(10)	12	5	17	(7)
	(12)	**111**	**38**	**150**	**12**

7. Inventories

	2015	2014
Opening Balance	-	-
Additions	260 279	-
Consumable stores	817 178	686 705
Closing Balance	**1 077 457**	**686 705**

Figures in Rand	2015	2014

8. Receivables from exchange transactions

	2015	2014
Trade debtors	27 614 922	31 864 927
Provision for doubtful debts	(19 095 513)	(22 206 633)
	8 519 409	**9 658 294**

Balance as at 30 June 2015	Gross Balance	Provision for Doubtful Debts	Provision ofr bad debts- Opening Balance	Bad debts Written off	Net Balance
Electricity	9 003 482	(213 812)	-	933 987	9 723 657
Refuse	15 763 521	(853 003)	-	13 151 385	28 061 903
Other receivables	2 847 918	(43 117)	-	1 162 629	3 967 430
Provision for Bad Debts: Opening Balance	-	-	(33 233 583)	-	(33 233 583)
	27 614 921	**(1 109 932)**	**(33 233 583)**	**15 248 001**	**8 519 407**

Balance as at 30 June 2014	Gross Balances	Provision for Doubtful Debts	Provision for bad debts- Opening Balance	Net Balance
Electricity	6 633 072	(2 378 378)	-	4 254 694
Refuse	15 241 397	(12 288 821)	-	2 952 576
Other receivables	3 375 430	(924 406)	-	2 451 024
	25 249 899	**(15 591 605)**	**-**	**9 658 294**

Refuse: Ageing	2015	2014
Current (0-30 days)	-	715 598
31 - 60 Days	728 934	610 654
61 - 90 Days	674 359	555 434
91+ Days	27 511 613	13 359 711
	28 914 906	**15 241 397**

Electricity: Ageing	2015	2014
Current (0-30 days)	78 020	2 633 092
31 - 60 Days	1 297 305	588 216
61 - 90 Days	593 695	272 748
91+ Days	7 968 449	3 139 017
	9 937 469	**6 633 073**

Other receivables: Ageing	2015	2014
Current (0-30 days)	187	279 537
31 - 60 Days	12 725	160 931
61 - 90 Days	2 363 216	108 707
91+ Days	1 634 419	2 826 255
	4 010 547	**3 375 430**

Summary of Debtors by Customer Classification as at 30 June 2015	Consumers	Industrial / Commercial	Provincial and National Government	Total
Current (0-30 days)	258	-	-	258
31 - 60 Days	1 624 203	3 196 095	2 194 630	7 014 928
61 - 90 days	1 424 358	3 247 692	9 844 639	14 516 689
91+ Days	38 642 140	17 580 817	27 543 742	83 766 699
Subtotal	41 690 959	24 024 604	39 583 011	105 298 574
Less: Provision for bad debts	(23 197 202)	(13 367 492)	-	(36 564 694)

Figures in Rand	2015	2014

8. **Receivables from exchange transactions (continued)**

	18 493 757	**10 657 112**	**39 583 011**	**68 733 880**

Summary of Debtors by Customer Classification as at 30 June 2014	Consumers	Industrial / Commercial	Provincial and National Government	Total
Current (0-30 days)	1 055 836	1 176 656	837 069	3 069 561
31 - 60 Days	928 025	635 565	513 651	2 077 241
61 - 90 days	862 958	379 840	374 938	1 617 736
91+ Days	27 444 988	3 556 546	14 517 092	45 518 626
Subtotal	30 291 807	5 748 607	16 242 750	52 283 164
Less: Provision for doubtful debts	(27 932 677)	(5 300 905)	-	(33 233 582)
	2 359 130	**447 702**	**16 242 750**	**19 049 582**

Included in the total debtors by customer classification is the following amounts related to property rates (Refer to Note 9)		
Property Rates	73 135 473	28 008 909
Provision for doubtful debts	(17 469 182)	(11 026 950)
	55 666 291	**16 981 959**

Reconciliation of the doubtful debt provision		
Balance at beginning of the year	22 206 632	5 740 287
Contributions to provision (Note 24)	19 921 831	18 743 607
Doubtful debts written off against provision	(23 032 950)	(2 277 262)
	19 095 513	**22 206 632**

Trade and other receivables past due but not impaired		
Less than 30 days	187	3 791 006
31 to 60 days	2 038 964	1 166 667
61 to 90 days	1 278 514	1 239 418
	3 317 665	**6 197 091**

Trade and other receivables impaired

The amount of the provision was R 19 905 513.36 as at 30 June 2015 (2014: R 22 206 632.92).
Credit quality of trade and other receivables from exchange transactions.
The municipality does not have a formal credit quality assessment process
Fair value of trade and other receivables.
The carrying value of trade and other receivables approximates their fair value

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

9. Receivables from non-exchange transactions

Other receivables from non-exchange revenue (impair)	(17 469 182)	(11 026 950)
Government grants and subsidies	11 751 635	20 000 000
Sundry Debtors	34 678	755 660
Consumer debtors - Rates	77 536 089	39 924 244
	71 853 220	**49 652 954**

Rates-Ageing		
Less than 30 days	71	796 824
31 to 60 days	4 975 963	717 441
61 to 90 days	13 238 175	680 846
90+ days	59 321 879	37 729 132
	77 536 088	**39 924 243**

Receivables from non-exchange transactions impaired
As of 30 June 2015, other receivables from non-exchange transactions of R 84 887 108 (2014: R 59 924 243) were impaired and provided for.
The amount of the provision was R (17 469 182) as of 30 June 2015 (2014: R (11 026 950)).

Sundry Debtors		
Less than 30 days	-	643 824
90+ days	34 678	111 836
	34 678	**755 660**

Ageing of other non-exchange receivables

Government grants and subsidies		
61 to 90 days	11 751 635	20 000 000

Reconciliation of the doubtful debt provision		
Opening balance	11 026 950	4 334 768
Provision for impairment	6 442 231	6 692 182
	17 469 181	**11 026 950**

Property Rates
Interest is charged on all accounts that are overdue for more than 30 days. Interest charged is at prime rate plus 1%

10. VAT receivable

VAT	4 467 310	2 455 629

VAT is payable on the receipt basis. VAT is paid over to SARS once payment is received from debtors.

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

11. Cash and cash equivalents

Cash and cash equivalents consist of:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA BANK - Cheque - 4081716725	2 883 131	2 369 568	-	2 707 886	2 215 425	-
FNB BANK - Cheque - 62026192336	328 776	252 961	1 120 891	328 776	252 961	1 105 797
FNB BANK - Call Account - 62111847854	9 670	9 076	10 172	9 376	9 076	10 172
ABSA BANK - Investment - 9287386171	1	-	-	-	-	-
Other bank suspence accounts and petty cash	-	-	-	806 073	788 226	-
ABSA BANK - 4076575039	158 964	34 410	48 111	158 964	34 410	48 111
ABSA BANK - WETLANDS - 4076575291	53	53	200	53	53	200
6125	6 125	1 801 739	-	6 125	1 801 739	3 351 378
ABSA BANK - WETLANDS - 92501665285	(3)	(3)	1 000	3	3	1 000
ABSA BANK - MTN - 9253191122	11 022	1 013 317	-	11 022	1 013 317	1 165 721
ABSA BANK -BLOCKYARD - 9303723627	2 166 805	-	-	2 166 805	-	-
Total	**5 564 544**	**5 481 121**	**1 180 374**	**6 195 083**	**6 115 210**	**5 682 379**

12. Revaluation reserve

	2015	2014
Opening balance	2 659 100	2 659 100

13. Finance lease obligation

	2015	2014
Minimum lease payments due		
- within one year	11 334 417	5 746 352
- in second to fifth year inclusive	8 979 256	10 022 140
- later than five years	-	(5 746 352)
	20 313 673	10 022 140
less: future finance charges	(2 026 771)	(705 492)
Present value of minimum lease payments	**18 286 902**	**9 316 648**
Present value of minimum lease payments due		
- within one year	9 768 886	4 720 431
- in second to fifth year inclusive	8 518 016	9 316 648
- later than five years	-	(4 720 431)
	18 286 902	**9 316 648**

The municipality purchased plant and equipment on a hire purchase agreement over a period of 36 months. The municipalty is also renting photo copy machines for a period of 36 months. No contigent rent is payable on the above. The interest rate is 11.5% with no escalation. For restriction on the usgae refer to note 4 of the Annual Financial Statements.

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG	6 175 270	-
Block Yard-DEDEAD	2 221 699	-
INEP	-	2 096 061
EEDSM	-	1 975 301
ECDLGTA - Greening and Beautification	714 164	714 164
LSDF - Middledrift Spatial Development Framework	147 392	147 392
MTN Foundation	-	849 999
IDC	-	1 664 118
	9 258 525	**7 447 035**

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

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

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

15. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	16 498 682	-	(3 188 395)	(3 317 899)	476 231	10 468 619
Employee benefit cost	3 807 449	1 064 250	-	-	-	4 871 699
	20 306 131	**1 064 250**	**(3 188 395)**	**(3 317 899)**	**476 231**	**15 340 318**

Reconciliation of provisions - 2014

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	16 599 454	4 384 818	(5 606 385)	1 120 795	16 498 682
Employee benefit cost	3 491 548	315 901	-	-	3 807 449
	20 091 002	**4 700 719**	**(5 606 385)**	**1 120 795**	**20 306 131**

Provision for rehabilitation of landfill sites
The municipality operates 4 refuse disposal sites in and around Nkonkobe Municipality (Alice, Middledrift, Fort Beaufort and Seymour).In accordance with legislation, every year the municipality raises a provision for the estimated cost of rehabilitating the land on which the sites are situated.The provision is assessed every year by aqualified valuer and a liability raised. Movements in the provision are recognised in the statement of financial performance.

Principal assumptions:
The estimates for the previous years were calculated by using the rates for items as used by ourselves during those years. The cost estimates show an increase from 2013 to 2014, but a decrease from 2014 to 2015 for the Alice and Middledrift sites. This is due to certain construction items having decreased in price per uni
The table below indicates the CPI (all items) and PPI (Civil Engineering) headlines from June to June of the past 5 years obtained from StatsSA.
From the below it can be seen that construction item unit rates decreased from 2014 to 2015, but hourly rates for personnel and other costs increased.

Summary of assumptions
The following assumptions were made in order to provide estimates for the rehabilitation of the sites under consideration:
- All sites fall under the category of previously unlined B- sites, the capping design as described in section 3 is therefore used to calculate the estimates.
- The above indicated footprints requiring rehabilitation are correct and verified by the site owners.
- Sufficient quantities of capping material as described in section 3.1 are available from on-site and nearby sources.
- Minimal shaping of the existing waste body as this should be done during site operations to maximise use of the available disposal airspace.
- Provision for Fort Beaufort was not calculated for 30 June 2015 as construction for rehabilitation is under way and funded by DEA.There is no expected reimbursement (from the manufacturer) in respect of this provision.

Year	10/11	11/12	12/13	13/14	14/15
PPI Civ.Eng. (%)	-	5	5	3	(7)
CPI all items (%)	5	5	6	7	5
	5	**10**	**11**	**10**	**(2)**

Provision for long service awards
The municipality offers employees Long Service Awards for every 5 years of service completed, from 5 years of service to 45 years of service ,inclusive. The LSA is not a funded arrangement

Figures in Rand	2015	2014

15. Provisions (continued)

Principal actuarial assumptions

Discount rate	7,73 %	7,87 %
General salary inflation	6,91 %	7,09 %
Net discount rate	0,77 %	0,73 %
Average retirement age 63	-	-
Pre-retirement mortality SA85-90	-	-
	-	**-**

16. Payables from exchange transactions

Trade payables	34 616 015	35 750 074
Payments received in advanced	14 599 862	11 754 778
Accrued leave pay	7 616 787	7 067 942
Accrued expense (Exchange Transactions)	1 540 689	27 598
Other creditors	20 081 846	21 809 857
	78 455 199	**76 410 249**

17. Consumer deposits

Electricity	1 371 746	1 268 830

Consumer deposits collected do not accrue any interest .

18. Revenue

Sale of goods	87 867	-
Service charges	40 837 680	37 666 131
Rental of facilities and equipment	273 605	287 905
Licences or Permits (Non-exchange)	2 766 637	2 765 651
Other income	3 588 485	2 500 296
Interest received	5 929 367	4 171 973
Property rates	57 398 732	35 299 594
Government grants & subsidies	148 488 721	139 946 227
Fines, Penalties and Forfeits	42 950	196 955
	259 414 044	**222 834 732**

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

Sale of goods	87 867	-
Service charges	40 837 680	37 666 131
Rental of facilities and equipment	273 605	287 905
Other income	3 588 485	2 500 296
Interest received	5 929 367	4 171 973
	50 717 004	**44 626 305**

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

Taxation revenue		
Property rates	57 398 732	35 299 594
Transfer revenue		
Government grants & subsidies	148 488 721	139 946 227
Fines, Penalties and Forfeits	42 950	196 955
	205 930 403	**175 442 776**

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

19. Service charges

Sale of electricity	30 787 752	28 225 759
Refuse removal	10 049 928	9 440 372
	40 837 680	**37 666 131**

20. Rental of facilities and equipment

Facilities and equipment		
Straight-lined operating lease receipts	272 095	286 395
Other rentals	1 510	1 510
	273 605	**287 905**

21. Other income

Revenue from Exchange Transactions - Sale of goods and services	3 588 485	2 500 296

22. Interest received

Interest revenue		
Bank	255 766	189 803
Interest charged on trade and other receivables	5 227 626	3 402 554
Financial assets	445 975	579 616
	5 929 367	**4 171 973**

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

23. Property rates

Rates received

Residential	3 957 192	3 631 346
Commercial	3 928 669	4 723 161
State	49 074 347	-
Municipal	-	1 302 153
Small holdings and farms	-	24 881 159
Church	-	69
Industrial	-	32
Privately owned town	-	553 102
Vacant	438 524	92 429
Multy Purpose	-	116 143
	57 398 732	**35 299 594**

Valuations

Residential	1 131 975 500	884 949 644
Commercial	796 875 992	958 259 930
State	2 428 463 200	1 311 563 046
Other	-	165 190 288
	4 357 314 692	**3 319 962 908**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.0079 (residential), 0.016274 (business) and 0.0237 (state) is applied to property valuations to determine assessment rates. Rebates of R35 000 are granted to residential and state property owners.

Rates are levied on a monthly or annual basis with the final date of payment being 30 September for annual levies. Interest at prime+1% per month (2014:prime +1%) is levied on outstanding rates. A reclassification in categories is noted here above. This is as a result of the new valuation roll that was implemented.

24. Grants and subsidies paid

Other subsidies

Indingent Subsidy to consumers	6 052 644	8 942 095
Other	200 000	200 000
	6 252 644	**9 142 095**

Figures in Rand	2015	2014

25. Government grants and subsidies

Operating grants		
Equitable share	106 485 000	94 338 000
Operating Grants	-	122 598
MSIG	934 000	890 000
FMG	1 800 000	1 650 000
INEP	2 652 357	-
EEDMS	2 452 987	3 024 399
Subsidies	1 871 000	2 304 939
EPWP Alice Gateway	2 600 000	2 180 000
LGSITA	369 230	57 851
MIG	26 031 730	29 147 000
Department of Environmental Affairs and tourism	-	615 722
Government grant (operating)	-	4 174 702
IDC	1 664 118	1 441 016
MTN Foundation	849 999	-
Nkonkobe Blockyard DEDEAD	778 300	-
	148 488 721	**139 946 227**

Government Grants and Subsidies Reconciliation of Movement in Grant - 2015	Balance unspent at beginning of year	Current year receipts	Conditions met - transferred to revenue	Conditions still to be met - remain liabilities	Amount Returned
Equitable share	-	106 485 000	106 485 000	-	-
MIG	-	32 207 000	26 031 730	6 175 270	-
MSIG	-	934 000	934 000	-	-
FMG	-	1 800 000	1 800 000	-	-
Intergrated national electrification programme	2 096 060	2 500 000	2 652 357	(151 995)	(2 096 423)
energy efficiency & demand side management	1 975 301	1 500 000	2 452 987	(952 986)	-
Library grants	-	801 000	801 000	-	-
Expanded public works programme	-	1 070 000	1 070 000	-	-
Expanded public works programme	-	2 600 000	2 600 000	-	-
ECDLGTA - greening and beautification (other)	714 164	-	-	714 164	-
LSDF - middledrift spatial development framework	147 392	-	-	147 392	-
LG-SETA	-	220 500	220 500	-	-
LG-SETA	-	148 730	148 730	-	-
Industrial Development Corparaction Grant (IDC	1 664 118	-	1 664 118	-	-
MTN Foundation Grant	849 999	-	849 999	-	-
Nkonkobe Blockyard DEDEAD	-	3 000 000	778 301	222 669	-
	7 447 034	**153 266 230**	**148 488 722**	**6 154 514**	**(2 096 423)**

Reconciliation of Movement in Grant - 2014	Balance unspent at beginning of year	Current year receipts	Conditions met - transferred to revenue	Conditions still to be met - remain liabilities
Equitable Share	-	94 338 000	94 338 000	-
MIG Grant	-	29 147 000	29 147 000	-
MSIG	-	890 000	890 000	-
FMG	-	1 650 000	1 650 000	-
Intergrated national electrification programme	-	3 600 000	1 503 939	2 096 061
energy efficiency & demand side management	-	4 999 700	3 024 399	1 975 301
Library grants	-	801 000	801 000	-
Expanded Public Works Programme (EPWP)	-	2 180 000	2 180 000	-
ECDLGTA - greening and beautification (other)	14 164	700 000	-	-

Notes to the Group Annual Financial Statements

Figures in Rand			2015	2014
25. Government grants and subsidies (continued)				
LSDF - middledrift spatial development framework	147 392	-	-	-
LGSITA	-	57 851	57 851	-
MTN Debtor	-	122 598	122 598	-
IDC	2 101 320	3 737 500	4 174 702	1 664 118
Department of Environmental Affairs and Tourism Grant (DEAT)	1 441 015	-	1 441 015	-
MTN Foundation Grant	1 165 721	3 000 000	615 722	849 999
	4 869 612	**145 223 649**	**139 946 226**	**6 585 479**

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 R 155 (2014: R 88), which is funded from the grant.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No2 of 2013), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Figures in Rand	2015	2014

26. Employee related costs

	2015	2014
Basic	59 588 967	52 467 419
Bonus	3 485 337	4 356 399
Medical aid - company contributions	3 001 551	1 897 604
UIF	470 101	427 211
WCA	1 068 769	1 257 606
SDL	789 632	678 526
Other payroll levies	8 466 957	7 390 263
Leave pay provision charge	2 080 329	2 044 316
Travel, motor car, accommodation, subsistence and other allowances	2 377 476	3 211 751
Overtime payments	1 719 181	1 884 292
Long-service awards	536 889	633 280
Housing benefits and allowances	1 856 043	315 877
Other Council Contributions	899 875	719 885
Waterland project wages	445 503	494 792
Termination benefits	(1 211 463)	5 266 550
Employee costs - wages - casual staff	4 798 624	1 561 665
	90 373 771	**84 607 436**

Remuneration of municipal manager

	2015	2014
Annual Remuneration	426 199	582 135
Phone allowance	30 898	33 438
Car Allowance	265 748	390 604
Contributions to UIF, Medical and Pension Funds	181 053	10 696
	903 898	**1 016 873**

Remuneration of chief finance officer

	2015	2014
Annual Remuneration	532 371	415 207
Car Allowance	254 366	299 464
Phone allowance	61 601	20 484
Contributions to UIF, Medical and Pension Funds	57 189	103 018
	-	-
	905 527	**838 173**

Remuneration of the Chief Executive Officer

	2015	2014
Annual Remuneration	817 713	761 376
Performance and other bonuses	-	-
Car Allowance	32 897	29 236
Contributions to UIF, Medical and Pension Funds	-	-
	850 610	**790 612**

Remuneration of the Finance Manager

	2015	2014
Annual Remuneration	351 078	345 004
Performance and other bonuses	-	-
Car Allowance	13 343	9 475
Contributions to UIF, Medical and Pension Funds	16 178	-
	380 599	**354 479**

Remuneration of executive directors- 2015	Annual Remuneration	Car Allowance	Reimbursive travel allowance	Contributions to UIF, Medical and Pension Funds	Total
Technical Services	554 248	353 388	5 998	10 153	923 787

Notes to the Group Annual Financial Statements

Figures in Rand				2015	2014

26. Employee related costs (continued)

Corporate Service	554 248	353 388	92 888	10 783	1 011 307
Strategies LED	554 248	436 593	43 565	10 714	1 045 120
	1 662 744	**1 143 369**	**142 451**	**31 650**	**2 980 214**

Remuneration of executive directors- 2014	Annual Remuneration	Car Allowance	Reimbursive travel allowance	Contributions to UIF, Medical and Pension Funds	Total
Technical Services	505 833	12 813	328 794	9 560	857 000
Corporate Services	255 000	9 451	169 962	5 099	439 512
Corporate Services	427 708	6 589	168 078	99 371	701 746
Strategies LED	93 000	2 650	168 190	3 026	266 866
Strategies LED	324 900	5 440	308 291	81 290	719 921
	1 606 441	**36 943**	**1 143 315**	**198 346**	**2 985 045**

Remuneration of non-executive directors- 2015	Board Stipend	S & T	Total
M. Pebane	20 921	4 987	25 908
V.V Nkomana	17 232	1 348	18 580
F. Maqwati	29 704	8 013	37 717
M, Nyweba	11 488	3 887	15 375
	79 345	**18 235**	**97 580**

Remuneration of non-executive directors- 2014	Board Stipend	S & T	Total
M. Pebane	23 715	7 706	31 421
V.V Nkomana	21 080	-	21 080
F.. Maqwati	28 985	16 635	45 620
M. Nyweba	23 715	6 432	30 147
Other	-	4 268	4 268
	97 495	**35 041**	**132 536**

27. Remuneration of councillors

	2015	2014
Executive Major	746 308	713 859
Mayoral Committee Members	2 867 005	2 141 832
Speaker	604 887	579 051
Councillors	1 928 263	673 269
Councillors' pension contribution	3 511 308	3 205 594
Councillor's Allowances	3 409 262	4 984 594
	13 067 033	**12 298 199**

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

The Mayor and the speaker have use of the Council owned vehicle for official duties and are also allocated a drivers at the expense of the Council.

28. Depreciation and amortisation

	2015	2014
Property, plant and equipment	24 887 592	28 320 890
Intangible assets	282 076	144 103
	25 169 668	**28 464 993**

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

29. Impairment of assets

Impairments		
Property, plant and equipment	9 643 512	-

Fort Beaufort landfill site that has been used for disposing waste over the years, is in the process of closure. This site is being rehabilitated and will no longer be used for disposing waste. The total rehabilitaion cost capitalised to the asset was R11million. With the closure and rehabilitation in progress, the total rehabilitation cost previously capitalised to the asset was impaired to correspond with the provision for rehabilitation of the site that was recognized as a non current liability

30. Finance costs

Trade and other payables	3 808 695	328 073
Interest on unwinding of provision	2 442 665	1 187 281
	6 251 360	**1 515 354**

31. Debt impairment

Contributions to debt impairment provision	10 794 164	23 158 529

32. Repairs and maintenance

Repairs and maintenance	17 787 630	7 965 524

33. Bulk purchases

Electricity	33 050 589	27 008 479

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

34. General expenses

Admin general fees	12 586	47 135
Advertising	258 137	703 367
Auditors remuneration	5 073 946	4 252 901
Bank charges	389 487	232 685
Cleaning	21 122	231 677
Commission paid	31 122	193 309
Computer expenses	6 415	25 221
Consulting and professional fees	2 510 586	9 314 382
Consumables	324 808	553 460
Donations	23 189	37 244
Entertainment	112 563	357 150
Hire	36 826	1 766 068
Insurance	1 096 380	999 212
Wetlands Project Expenditure	619 423	610 212
Magazines, books and periodicals	1 983	2 674
Motor vehicle expenses	272 977	273 003
Fuel and oil	2 937 391	3 031 506
Postage and courier	51 113	228 463
Printing and stationery	588 684	490 480
Protective clothing	210 487	463 647
Security (Guarding of municipal property)	181 843	232 272
Staff welfare	44 402	179 975
Subscriptions and membership fees	737 994	1 104 813
Telephone and fax	3 781 141	3 258 959
Social Responsibility	20 844	33 423
Training	997 760	1 159 100
Travel - local	2 191 386	4 345 852
Electricity	97 111	222 939
Water	192 959	2 527 612
Community Facilitation	-	2 250
Tourism development	526 431	598 094
Events	112 124	1 750 883
Ward Committee	2 719 312	2 596 116
Bursaries and Awards	119 664	(53 830)
Special Programmes	2 278 714	1 422 364
CO-OP	1 218 158	1 033 160
Valuation Costs	1 385 571	1 409 551
Other expenses	4 318 047	7 680 226
	35 502 686	**53 317 555**

35. Cost of sales

Sale of goods		
Cost of goods sold	217 498	-
VAT	(26 710)	-
	190 788	**-**

36. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at Fair Value through Profit & Loss	(594 000)	1 927 100

37. Auditors' remuneration

Fees	5 073 946	4 252 901

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

38. Cash generated from operations

Surplus (deficit)	10 522 558	(23 477 717)
Adjustments for:		
Depreciation and amortisation	25 169 669	28 464 993
Gain on sale of assets and liabilities	213 641	761 384
Fair value adjustments	594 000	(1 927 100)
Impairment deficit	9 643 512	-
Debt impairment	10 794 164	23 158 529
Movements in retirement benefit assets and liabilities	(80 384)	5 097 696
Movements in provisions	7 906 482	261 094
Changes in working capital:		
Inventories	(390 752)	245 234
Receivables from exchange transactions	1 138 885	(611 236)
Consumer debtors	-	(23 158 529)
Other receivables from non-exchange transactions	(23 737 448)	(46 204 857)
Debt Impairement	(20 437 676)	-
Payables from exchange transactions	3 586 637	37 390 722
VAT	(1 536 120)	(2 197 609)
Unspent conditional grants and receipts	1 925 425	4 771 362
Other liability	1 298 511	111 624
	26 611 104	**2 685 590**

39. Related parties

Members of key management:	
Municipal manager : (Resigned February 2015)	Mr KC Maneli
Municipal manager : (Acting)	Mr L Menze
CFO	Mrs B Lubelwana
LED Senior Manager :	Mr L Menze
Technical Services Senior Manager :	Mr Z Nkosinkulu
Corporate Services Senior Manager:	Mrs NK Fololo
CEO (Economic entity)	Mr M Mali
Finance Manager	Mrs N Ketwa
Shareholder/ Department with significant influence	Department of Environmental Affairs

Municipal Entity
Nkonkobe Economic Development Agency is 100% owned by the Nkonkobe Local Municipality

The municipality provides a transfer subsidy to the development agency to assist with its operations. In addition the municipality also settles the entity's audit fees on its behalf.

Department of Environmental Affairs

The department signed a memorundum of agreement with the municipality whereby, the department agreed to cover costs of closure and rehabilitation of Fort Beaufort Landfill site to the tune of R10 000 000. The department further agreed to rehabilitate land within the municipality area for an amount of R10 000 000. The department appointed consultants to implement these projects, and payments are made direclty to consultants by the department.

Related party transactions

Funds (received from) related parties		
Department of Environmental Affairs	-	20 000 000
Administration fees paid to (received from) related parties		
MTN Debtor	-	122 598
Related party transactions		
Subsidy paid to Nkonkobe Economic Development Agency	3 340 146	2 592 149

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

40. Prior period errors

Current Liabilities
Nkonkobe Municipality entered into an agreement with the department of environmental affairs whereby the department agreed to assist the municipality by paying for closure and rehabilitation of Fort Beaufort Landfill site and land rehabilitation, to the value of R20 000 000.00. No disclosure was made on the prior year's financial statement in respect of this agreement. The effect of the correction is as follows;

Statement of Financial Position

Deferred Income (Liability)		20 000 000

Statement of Financial Position
Current Assets
Nkonkobe Municipality entered into an agreement with the department of environmental affairs whereby the department agreed to assist the municipality by paying for closure and rehabilitation of Fort Beaufort Landfill site and land rehabilitation, to the value of R20 000 000.00. No disclosure was made on the prior year's financial statement in respect of this agreement. The effect of the correction is as follows;

Receivables from non-exchange transactions		20 000 000

Property Plant and Equipment
Roads and Work In Progress
A project that was completed in the 2013/14 financial year was not capitalised in that year. This project has now been capitalised based on the actual costs incurred. Accumulated depreciation on the asset has been re-stated as well. Incomplete projects were loaded on the system as assets instead of under construction projects. The assets were subsequently capitalised into completed assets on completion date. This resulted in double capitalisation thereby over stating assets. Depreciation was not affected by the double counting.

Effect:

Statement of financial position

Property Plant and Equipment: (Roads)	(10 696 214)	-
Property Plant and Equipment (Parks)	(338 640)	-
Accumulated depreciation	(76 047)	-
Work In progress	(11 373 495)	-

Figures in Rand	2015	2014

40. Prior period errors (continued)

Statement of Financial Performance		
Depreciation	76 047	-

Non Current Provisions
Landfill sites Provisions
This provision has now been revised by experts. The correction of the error(s) results in adjustments are as follows;

Statement of Financial Position		
Non Current Provisions (Provision for rehabilitation of landfill sites)	(13 993 089)	-
Non Current Assets	-	-
Property Plant and Equipment	9 580 174	-
Accumulated Depreciation	(261 096)	-
	-	**-**

Statement of Financial Performance		
Depreciation	382 214	-
Finance Costs (Unwinding of Interest)	1 120 795	-
Profit/Loss on sale of asset	11 493	-
	-	**-**

Statement of financial position	2014 As previously reported	Reclassification	Error	2014 Re-stated
Non-Current Assets				
Property, plant and equipment	283 092 912	-	9 243 031	292 335 943
Investment property	21 221 700	-	-	21 221 700
Intangible assets	328 794	-	-	328 794
Current Assets				
Inventories	686 705	-	-	686 705
Trade and other receivables from exchange transactions	9 658 294	-	-	9 658 294
Other receivables from non-exchange transaction including taxes and fines	29 136 749	-	20 000 000	49 136 749
Cash and cash equivalents	6 115 210	-	-	6 115 210
Vat receivable	2 455 629	-	-	2 455 629
Equity and Liabilities				
Equity				
Reserves	(2 659 100)	-	-	(2 659 100)
Accumulated surplus/ (deficit)	(246 069 115)	-	1 481 227	(244 587 888)
Liabilities				
Non-Current Liabilities				
Finance lease obligation	(9 382 106)	(2 103)	-	(9 384 209)
Provision for longservice awards	(3 807 449)	-	-	(3 807 449)
Defined benefit plan obligations	(18 479 000)	-	-	(18 479 000)
Provision for rehabilitation of landfill sites	(2 505 593)	-	(10 719 234)	(13 224 827)
Current Liabilities				
Current portion of finance lease obligation	(4 899 449)	2 103	-	(4 897 346)
Trade and other payables from exchange transactions	(44 134 239)	-	(20 000 000)	(64 134 239)
Current portion of unspent conditional grants and receipts	(7 447 036)	-	-	(7 447 036)
Other current financial liabilities	(289 299)	-	-	(289 299)
Consumer deposits	(1 268 829)	-	-	(1 268 829)
Payments received in advance	(11 754 778)	-	-	(11 754 778)
	-	**-**	**5 024**	**5 024**

Statement of Financial Performance	2014 As previously reported	Reclassification	Error	2014 Re-stated

Notes to the Group Annual Financial Statements

40. Prior period errors (continued)

Revenue from non-exchange transactions				
Property rates	35 299 594	-	-	35 299 594
Fines, Penalties and Forfeits	196 955	-	-	196 955
Licenses and permits	2 765 651	-	-	2 765 651
Government grants and subsidies	139 946 227	-	-	139 946 227
Revenue from exchange transactions				
Service charges	37 666 131	-	-	37 666 131
Rental of facilities and equipment	287 905	-	-	287 905
Interest earned - external investments	769 420	-	-	769 420
Interest earned - outstanding receivables	3 402 554	-	-	3 402 554
Other income	2 499 740	-	556	2 500 296
Expenses				
Bulk purchases	(27 008 479)	-	-	(27 008 479)
Employee related costs	(84 607 434)	-	-	(84 607 434)
Remuneration of councilors	(12 298 199)	-	-	(12 298 199)
Bad debts	(23 158 529)	-	-	(23 158 529)
Depreciation and amortisation expense	(28 006 732)	-	(458 261)	(28 464 993)
Repairs and maintenance	(7 965 524)	-	-	(7 965 524)
Grants and subsidies paid	(8 620 869)	-	(521 226)	(9 142 095)
General expenses	(53 838 781)	-	521 226	(53 317 555)
Finance costs	(394 559)	-	(1 120 795)	(1 515 354)
Gain /(Loss) on sale of assets	(851 156)	-	-	(851 156)
Gain / (Loss) on fair value adjustment	1 927 100	-	-	1 927 100
	(21 988 985)	**-**	**(1 578 500)**	**(23 567 485)**

In the prior year the entity erroneously discosed an amount of R1 157 986 as unathorised expenditure instead of irregular expenditure. As a consequence, irregular expenditure was understated and unauthorised expenditure overstated. The error has subsequently been corrected by restating each of the affected financial statement disclosures as follows:

	2015	2014
Impact on unauthorised expenditure		
Opening balances as previously reported	1 157 986	-
Prior period error: Reclassification	(1 157 986)	-
	-	**-**

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

41. Risk management

Financial risk management

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

Trade receivables comprise a widespread customer base. Sales to customers are settled in cash or with bank guaranteed cheques.

The financial assets carried at amortised cost expose the entity to credit risk. The value of the maximum exposure to credit risk are as follows for each of classes of financial assets at amortised cost:

The Economic entity's principal financial Liabilities comprise trade and other payables. The main purpose of these financial liabilities is to raise finance for the entity's operations. The entity has financial assets in the form of cash and short-term deposits, which arise directly from its operations and other receivables.

Financial assets		
Cash and cash equivalents	6 195 083	6 115 210
Trade and other receivables (cost)	32 082 232	34 320 556
Trade and other receivables (impairments)	(19 095 513)	(22 206 633)
Other receivables from non-exchange transactions (cost)	89 322 402	60 679 904
Other receivables from non-exchange revenue (impair)	(17 469 182)	(11 026 950)
	91 035 022	**67 882 087**

Collateral held and other credit enhancements
The municipality does not hold any collateral in relation to the financial assets above.

Concentration of credit risk
Credit risk is mainly concetrated on Trade and other receivables from exchange transaction.
The major concentrations of credit risk that arise from the Municipality's receivables in relation to customer classification are as follows;

Consumer debtors	40 %	47 %
Industrial / Commercial	23 %	9 %
Provincial and National Government	37 %	44 %
	100 %	**100 %**

Liquidity risk

The Economic entity risk to liquidity is a result of funds available to cover future commitments. The entity manages liquidity risk through an on-going review of future commitments and credit facilities.
The table below analyses the entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Liabilities		
Payables from exchange transactions	78 455 197	76 410 244

41. Risk management (continued)

Credit risk

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

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

Management is not aware of any subsequent events that has an effect on the annual financial statements as presented for the period ending 30 June 2015.

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

42. Irregular, Fruitless and Unauthorised Expenditure

Irregular expenditure

Opening balance	18 327 481	14 508 555
Add: Irregular Expenditure - current year	14 117 756	3 818 926
Prior Period Error: Rreclassification of Unauthorised Expenditure	2 300 006	-
Less: Amounts not recoverable (not condoned)	-	-
	34 745 243	**18 327 481**

Details of Irregular Expenditure	Description	Amount
Vaxobyte PTY LTD	1	300 000
Nkonjane Cleaning & Catering Co-operative	2	624 167
Laman Financial Services	3	13 193 589
	-	**14 117 756**

- 1. The tender awarding committee did not form a quorum when this tender was awarded. The tender was subsequently terminated by council.
- 2. The tender awarding committee did not form a quorum when this tender was awarded. The tender was subsequently terminated by council
- 3.The contract was awarded to the service provider based on application of sec 32 of the SCM policies. The awarding
  was regarded as irregular where the tender was awarded initially (Port St Johns Municipality), the Auditor General declared the awarding at Nkonkobe Municipality as irregular as well, based on the Port St Johns awarding.

Fruitless and Wasteful expenditure

Openning Balance	1 339 894	2 236 320
Fruitless and wasteful expenditure	1 140 207	1 339 894
Approved or written off by Council	-	(2 236 320)
To be recovered – contingent asset	-	-
	2 480 101	**1 339 894**

Details of Fruitless and Wasteful expenditure
Fruitless and wasteful expenditure relates to interest incurred on the following expense items;

Purchase of electricity (Eskom debt)	830 359.03
Late payments on audit fees	234 804.10
SARS	41 389.11
CIPRO Penalties	300.00
SARS (entity)	33 217.00
Telkom	138.00

Unauthorised expenditure

Opening balance	40 309 231	630 000
Unauthorised expenditure	35 917 952	39 679 231
	76 227 183	**40 309 231**

43. Deviation from supply chain management regulations

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

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

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer and council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Figures in Rand	2015	2014
Details of Minor breaches of SCM Policies		
Budget & Treasury Office Department		
Times Media	6 327	-
Times Media	7 592	-
Grizzly Engineering	24 943	-
Aurecon	637 225	-
Central locksmith	5 424	-
Times Media	11 080	-
Times Media	8 646	-
Conlog	13 939	-
Aurecon	470 200	-
Kempston Fuels	141 480	-
Engineering Department		
Candi-Lite Cables cc	44 237	-
Beak Shredder	39 078	-
North & Robertson's E.L	17 418	-
Huntshu	1 749 835	-
Zezethu Consulting Engineers	813 276	-
Strategic Planning & LED Department		
Times Media	10 465	-
Times Media	6 202	-
Corporate Services Department		
Fort Hare Community Radio	4 500	-
G&B Motors	7 521	-
Times Media	6 202	-
Times Media	16 164	-
Times Media	19 853	-
Times Media	18 383	-
Datnis Nissan	2 382	-
Tractor World	2 105	-
Barloworld	142 728	-
TFM Manufacturing	4 066	-
Province of the eastern cape	16 771	-
Datnis Nissan	2 689	-
Times Media	6 202	-
Times Media	12 403	-
Autohas BMW	8 447	-
Autohas BMW	5 603	-
Daftness Nissan	28 977	-
Coetzer Fire Services	2 850	-
Times Media	6 566	-
Times Media	10 619	-
Times Media	6 566	-
Babcock	22 791	-
P.G.GLASS	1 308	-
Province of the Eastern Cape	2 352	-
Ferobrake	2 648	-

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

43. Deviation from supply chain management regulations (continued)

Buffalo Toyota E/L	6 830	-
Ferobrake	2 218	-
Ferobrake	3 971	-
The Motorbake Trust	6 067	-
Ferobrake	8 299	-
G and B Motors	7 986	-
Eastern Cape Tyres	5 496 002	-
Municipal Manager's Office		
Times Media	6 618	-
NEDA		
SAPI	2 880	-
Secolo Consulting & Training	7 979	-
Times Media	12 157	-
Fleet Dynamics	2 832	-
Fleet Dynamics	4 773	-
Buffalo Toyota	4 860	-
Ruby Star Trading 32cc	127 805	-
	10 069 340	**-**

44. Operating Leases

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:
Operating lease arrangements

Lessee
The major category of asset leased is Cell phone and data cards
At the reporting date the entity had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Up to 1 year	227 569	1 249 156
1 to 5 years	910 277	340 824
	1 137 846	**1 589 980**

Operating leases- lessee		
Within one year	21 496	18 850
In the second to fifth year inclusive	23 645	56 022
	45 141	**74 872**

Lessor
The municiplity rents out houses within its area to staff members. Rental collected as at year end amounted to R168 329.65
At the reporting date the entity had contracted with tenants for the following future minimum lease payments

Up to 1 year	164 663	43 560
1 to 5 years	685 650	108 900
	850 313	**152 460**

45. Statement of Budget Comparison: Reasons for variances

Explanation for variances is given for variances of 10% and above as they are considered material.

43. Deviation from supply chain management regulations (continued)

1. Rates:The municipality implemented three (3) suplementary valuations which resulted in a huge increase in the billing of rates, service charges and interest levied on overdue accounts
2. Service Charges: The municpality implemented three (3) suplementary valuations which resulted in a huge increase in the billing of rates, service charges and interest levied on overdue accounts
3. Interest Received: The muniicpality implemented three (3) suplementary valuations which resulted in a huge increase in the billing of rates, service charges and interest levied on overdue accounts
4.Transfer recognised: Variance below 10% therefore considered immaterial
5. Other revenue: The municpality implemented three (3) suplementary valuations which resulted in a huge increase in the billing of rates, service charges and interest levied on overdue accounts
6. Employee Cost: Variance less than 10% therefore immaterial
7. Councillors Allowance: Variance is less than 10% therefore immaterial
8. Debt Impairement: Analysis of impairement was done at year end. It was not possible to estimate and budget accurately as the objections to the valuation roll were pending and subvaluation rolls loaded in the middle of the year.
9. Depreciation: Variance is less than 10%, therefore considered immaterial.
10. Finance Charges: Interest on unwinding of provisions was not known at the time of preparing the budget, and was therefore not budgeted for. It should be noted that this interest is calculated by specialists which are appointed by the municipality to prepare these reports as at year end. The financial year must be closed before this interest can be calculated.
11. Bulk Purchases: The municipality entered into an agreement with Eskom in respect of unpaid bills from the previous fiancial year. The payment thereof resulted in over expenditure
12. Transfers and Grants: Variance is less than 10% therefore immaterial.
13. General expenses: Variance is less than 10% therefore considered immaterial.
14. Impairement loss : The impairement loss arises as a result of derecognition of Fort Beaufort Landfill site which is in the process of being closed. The landfill site value was not known at the time of budgeting.
15. Repairs and Maintenance: The increase is attributable to repairs and maintenance of land rehabilitation and expenses incurred on closure of the landfill site. These expenses are funded by the Department of Environmental Affairs. The funding was not included in the buget.

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

43. Deviation from supply chain management regulations (continued)

46. Contingent Liabilities

Claim for damages		
Claim 1		
PLM Construction vs Nkonkobe Municipality - PLM Construction is suing the Municipality for payment in terms of a breach of contract on the construction of a road in Fort Beaufort. The claim was Increased by the Plaintiff and the matter is still pending at year end. (Case abandoned in 2015 financial year)	-	78 066
Claim 2		
B.E Baba vs Nkonkobe Municipality - The plaintiff is claiming for damages caused to his vehicle after it collided with one belonging to the municipality. The plaintiff passed away and it is probable that the case will not continue	-	16 100
Claim 3		
Nkonkobe Municipality vs Mdlalo - The employee ordered retrospective reinstatement with 16 months compensation to the amount of R176 000. The award is taken in the labour court	-	176 000
Claim 4		
Ligitaion in a matter between Nkonkobe Municipality and Mampana. Municipality sued for general damages for injuries sustained in a bridge at Fort Beaufort.	500 000	250 000
Claim 5		
Amathole Forestry CO (PTY) vs Amathole Municipality and Nkonkobe Municipality. Application to compel Nkonkobe to build fire services in certain areas within.	300 000	-
Claim 6		
Bergman vs Nkonkobe Municipality. Civil damages claim arising from electricity.	600 000	-
Claim 7		
Mlandu vs Nkonkobe. Civil claim arising out of damage to rave	15 000	-
Claim 8		
N Luthweyi vs Nkonkobe: Labour Review matter	80 000	-
	1 495 000	**520 166**

Fines and Penalties		
The municipality is operating 3 landfill sites without the required permits from the Department of Environmental Affairs. The Department may impose a penalty of up to R10 000 000.00 per landfill site operated without the required permits or for noncompliance with permit conditions.There is uncertainty if the penalties will be imposed.(Licenses for all landfill sites were obtained from the Department of Environmental Affairs)	-	30 000 000

Contingent Assets		
Nkonkobe Municipality vs Mdlalo & Luthweyi Civil - The employees were charged of embezzling funds. The municipality is in a process of recovering funds from their provident fund to the amount of R593 000. The claim is for legal costs incurred and the matter is before the labour court at year end.	104 000	104 000

Figures in Rand	2015	2014

43. Deviation from supply chain management regulations (continued)

47. Additional Disclosures in Terms of Municipal Finance Management Act

Contributions to organised local government		
Council subscription	947 131	1 911 842
Amount paid-current	(947 131)	(1 911 842)
Amount paid-previous year	-	-
Balance unpaid (included in payable)	**-**	**-**

Audit fees		
Opening balances	3 211 058	1 069 071
Current year audit fees	4 675 289	5 162 153
Amount paid-current	(2 117 518)	(4 093 083)
Amount paid-previous	(531 157)	1 072 917
Balance unpaid (included in payable)	**5 237 672**	**3 211 058**

PAYE, SDL AND UIF		
Opening balances	-	-
Current year payroll deductions	15 201 589	11 446 400
Amount paid-current	(14 016 125)	(11 446 400)
Amount paid-previous	-	-
Balance unpaid (included in payable)	**1 185 464**	**-**

Pension and Medical Aid Deductions		
Opening balances	-	-
Current year payroll deductions	16 577 978	12 409 807
Amount paid-current	(15 301 214)	(12 409 807)
Amount paid-previous	-	-
Balance unpaid (included in payable)	**1 276 764**	**-**

Councillor's arrear consumer accounts 2015	Outstanding less than 90 days	Outstanding more than 90 days	Total
The following Councillors had arrear accounts outstanding for more than 90 days as at:as at 30 June 2015			
Councillor S P Matyila	-	172	172
Councillor M E Mgengo	-	353	353
Councillor C N Nono	88	972	1 060
Councillor N V Gora	88	2 678	2 766
Councillor P Sixolo	-	138	138
Councillor D Gysman	603	-	603
Councillor A A Booysen	88	1 804	1 892
Councillor A A Booysen	88	1 124	1 212
Councillor T P Dwanya	-	305	305
	955	**7 546**	**8 501**

Councillor's arrear consumer accounts 2014	Outstanding less than 90 days	Outstanding more than 90 days	Column heading	Column heading	Total
Councillor S P Matyila	304	1 389	-	-	1 693
Councillor R A Kganedi	625	886	-	-	1 511
Councillor C N Nono	292	900	-	-	1 192
Councillor N V Gora	325	3 149	-	-	3 474
Councillor P Sixolo	325	3 149	-	-	3 474
Councillor D Gysman	274	709	-	-	983

Figures in Rand	2015	2014

43. Deviation from supply chain management regulations (continued)

Councillor Kanie-Esau LJ	325	3 252	-	-	3 577
Councillor A A Booysen	112	1	-	-	113
Councillor E Bantam	304	607	-	-	911
Councillor T P Dwanya	-	305	-	-	305
Councillor N Rulashe	368	69	-	-	437
Councillor N Ndlazi	59	200	-	-	259
Councillor S Maqoma	274	365	-	-	639
	3 587	**14 981**	**-**	**-**	**18 568**

48. Capital Commitments

	2015	2014
Commitments in respect of capital expenditure		
Approved and contracted for		
Infrastructure	7 295 947	11 401 477
Community	2 690 035	1 833 114
Other	24 682 303	44 300 638
	34 668 285	**57 535 229**

	2015	2014
This expenditure will be financed from:		
Own Revenue	24 697 810	13 234 591
Grants	9 970 475	44 300 638
	34 668 285	**57 535 229**

The Municipality is further committed to contracts which are based on a per rate basis. Details are as follows

Heading	Conract No	Tender Amount	Column heading	Column heading	Column heading
Peace Attraction					
Supply and delivery of protectiv clothing for Nkonkobe Municipality	08/14/15	Per Rate	2015/05/21		
PriceWaterCooper Inc					
Appointment of technical support unit for the Alice Revitalisation Program ARP	06/04/15	At Risk	2015/02/05		
Dyushu Majebe Attorneys					
Debt collection and credit control implementation	33/11/12		2012/05/22	2015/07/30	24 months
Khangela tracking					
Tracker fleet	N/A		2012/01/07	2014/09/30	24 months
Business Connections					
Venus Financial System	N/A		2014/01/07	2015/06/30	12 months
Mzoli Properties					
Development of retail complex in Middledrift	N/A		2013/01/09	2016/08/30	36 months
Hantsabe Inkanyile Ryden Consortium					
Development of retail complex in Alice	N/A		2013/01/09	2016/08/30	36 months
Lateral Unison Insurancce Brokers					
Short term insurance	18/10/11		2013/01/09	2015/08/30	12 months
Payday					
Payroll System	N/A		2013/01/03	2016/02/28	36 moonths
Gcida Trading Enterprise					
Provision of Travel Agency Services for Nkonkobe	40/12/13		2013/01/06	2015/05/30	12 months
Lithaba Basadi					
Provision of Travel Agency Services for Nkonkobe	21/11/12		2013/01/07	2015/06/30	12 months
ABSA					

Notes to the Group Annual Financial Statements

Figures in Rand	2015	2014

43. Deviation from supply chain management regulations (continued)

Provision of Banking Services	15/12/13	2014/01/10	2017/09/30	5 years
Contour Technology				
Supply of an STS complaint pre-payment electricity vending management system	37/13/14	2014/01/10	2017/09/30	36 months
Lefiso Projects cc				
Contractor to provide labour only for paving of Golf Course internal streets	42/13/14	2014/08/14	2017/08/14	36 months
27 years Roben Island				
Contractor to provide labour only for paving of Gugulethu internal streets	43/13/14	2014/08/14	2017/08/14	36 months
27 years Roben Island				
Contractor to provide labour only for paving of Bhofolo internal streets	41/13/14	2014/08/14	2017/08/14	36 months
Zisondeze Kithi trading and projects				
Supply and delivery of building material for Nkonkobe Municipality	01/14/15	2014/10/15	2014/10/15	12 months
Nickigraph pty (ltd)				
Affordable housing development in Fort Beaufort	N/A	2014/10/20	2017/10/20	36 months
Nikilitha consulting cc. Amadwala trading cc & Portwig Property investment pty (ltd)				
Affordable housing development in Alice	N/A	2014/10/20	2017/10/20	36 months
Huntsu construction and projects				
Supply and delivery of material	14/13/14	2015/03/10	2015/06/10	3 months

49. Electricity Distribution losses

	2015	2014
Electricity purchased		
Pre-Paid & Metered	32 684 721	30 074 784
Free Basic Electricity	4 269 500	4 145 100
Sub- Total	**116 770 638**	**110 249 065**
Distributions		
Pre-Paid (Customers)	12 590 184	15 248 366
Metered (Customers)	14 655 878	12 882 805
Sub- Total	27 246 062	28 131 171
Total Energy lost	9 708 159	7 561 910
Normal Distibution Loss 10%	970 816	756 191
Sub- Total	10 678 975	8 318 101
Total Average Energy Charge (Rate) - Purchased (45%) &(42%)	3 966 332	3 130 630
Loss percentage (%)	11	7