Ugu District Municipality

Ugu District Municipality
Annual Financial Statements
for the year ended 30 June 2015

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Provide infrastructure for supply of water, sewerage and sanitation
Grading of local authority	Grade 5
Chief Financial Officer (CFO)	S P Mbili
Accounting Officer	DD Naidoo
Registered office	28 Connor Street Port Shepstone KwaZulu-Natal 4240
Postal address	P. O. Box 33 Port Shepstone KwaZulu-Natal 4240
Bankers	ABSA Bank Limited First National Bank
Auditors	Auditor General Registered Auditors

Index

The reports and statements set out below comprise the 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
GRAP	Generally Recognised 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 Responsibilities and Approval

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

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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.

The accounting officer certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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

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

The annual financial statements set out on pages 7 to 103, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2015 and were signed on its behalf by:

DD Naidoo
Municipal Manager

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four (4) times per annum as per its approved terms of reference. During the current year four (4) meetings were held.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 38(10)(1) of the PFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective. The quality of in year management and monthly/quarterly reports submitted in terms of the PFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared by management by the management of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the ;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

____

Chairperson of the Audit Committee

Date: ______________________

Independent Auditor's Report

The Independent Auditor's Report submits his report for the year ended 30 June 2015.

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	3	14 426 468	8 069 415
Current portion of long-term receivables	4	51 855	32 042
Operating lease asset	5	28 410	57 450
Receivables from non-exchange transactions	6	50 504 488	13 445 694
VAT receivable	7	-	6 069 735
Receivables from exchange transactions	8	95 058 018	130 457 632
Cash and cash equivalents	9	259 074 427	160 671 371
		419 143 666	**318 803 339**
Non-Current Assets			
Investment property	10	29 403 251	14 600 000
Property, plant and equipment	11	3 589 917 755	3 530 599 830
Intangible assets	12	8 933 645	9 599 572
Investments	13	200	100
Long-term receivables	4	270 644	7 404
		3 628 525 495	**3 554 806 906**
Non-Current Assets		3 628 525 495	3 554 806 906
Current Assets		419 143 666	318 803 339
Total Assets		**4 047 669 161**	**3 873 610 245**
Liabilities			
Current Liabilities			
Current-portion of long-term liabilities	14	18 915 505	18 268 969
Current portion of finance lease obligation	15	3 063 785	3 361 417
Operating lease liability	5	50 643	59 991
Payables from exchange transactions	16	149 683 332	106 358 191
VAT payable	17	855 061	-
Consumer deposits	18	20 034 005	19 724 662
Unspent government grants and receipts	19	21 365 817	48 333 089
Provisions	20	19 761 585	16 399 479
Bank overdraft	9	26 152 189	3 343 474
		259 881 922	**215 849 272**
Non-Current Liabilities			
Long-term liabilities	14	144 531 365	162 157 394
Finance lease obligation	15	-	3 206 864
Retirement benefit liabilities	21	15 250 105	13 524 137
Other long-term employee benefits	22	13 234 057	11 076 109
		173 015 527	**189 964 504**
Non-Current Liabilities		173 015 527	189 964 504
Current Liabilities		259 881 922	215 849 272
Total Liabilities		**432 897 449**	**405 813 776**
Assets		4 047 669 161	3 873 610 245
Liabilities		(432 897 449)	(405 813 776)
Net Assets		**3 614 771 712**	**3 467 796 469**
Accumulated surplus		3 614 771 712	3 467 796 469

Ugu District Municipality

(Registration number DC21)
Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	295 020 086	277 995 104
Rental of facilities and equipment	24	2 430 265	2 193 961
Other revenue	25	14 980 970	8 390 268
Interest received	26	18 995 968	13 820 590
Total revenue from exchange transactions		**331 427 289**	**302 399 923**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	27	722 408 093	664 515 026
		331 427 289	302 399 923
		722 408 093	664 515 026
Total revenue		**1 053 835 382**	**966 914 949**
Expenditure			
Employee related costs	29	(267 421 308)	(242 287 019)
Remuneration of councillors	30	(8 689 921)	(7 784 080)
Depreciation and amortisation	31	(171 578 396)	(172 406 536)
Impairment loss/ Reversal of impairments	32	(161 924 814)	(15 540 159)
Finance costs	33	(12 812 707)	(15 817 647)
Lease rentals on operating lease		(1 877 034)	(2 013 144)
Repairs and maintenance		(52 560 496)	(17 098 564)
Bulk purchases	35	(52 626 127)	(46 954 224)
Contracted services	36	(19 827 306)	(19 579 400)
Transfers and Subsidies	37	(45 521 982)	(66 444 163)
General Expenses	38	(108 703 466)	(104 221 200)
Total expenditure		**(903 543 557)**	**(710 146 136)**
		-	-
Total revenue		1 053 835 382	966 914 949
Total expenditure		(903 543 557)	(710 146 136)
Operating surplus		**150 291 825**	**256 768 813**
Gain (loss) on disposal of assets and liabilities		883 418	(1 334 421)
Fair value adjustments	39	(4 200 000)	(10 400 000)
		(3 316 582)	**(11 734 421)**
Surplus before taxation		146 975 243	245 034 392
Taxation		-	-
Surplus for the year		**146 975 243**	**245 034 392**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**3 222 762 077**	**3 222 762 077**
Changes in net assets		
Surplus for the year	245 034 392	245 034 392
Total changes	245 034 392	245 034 392
Opening balance as previously reported	2 151 809 437	2 151 809 437
Adjustments		
Correction of errors	1 315 987 032	1 315 987 032
Balance at 01 July 2014 as restated*	**3 467 796 469**	**3 467 796 469**
Changes in net assets		
Surplus for the year	146 975 243	146 975 243
Total changes	146 975 243	146 975 243
Balance at 30 June 2015	**3 614 771 712**	**3 614 771 712**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Sale of goods and services		287 304 854	276 525 027
Grants		706 253 174	666 995 710
Interest income		18 995 968	13 820 590
		1 012 553 996	957 341 327
Payments			
Employee costs		(276 111 229)	(250 071 099)
Finance costs		(12 812 707)	(15 817 647)
Other payments		(303 433 886)	(277 273 372)
		(592 357 822)	(543 162 118)
Total receipts		1 012 553 996	957 341 327
Total payments		(592 357 822)	(543 162 118)
Net cash flows from operating activities	40	**420 196 174**	**414 179 209**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(322 240 016)	(299 572 424)
Proceeds from sale of property, plant and equipment	11	885 269	-
Purchase of other intangible assets	12	(2 479 944)	(2 469 150)
Proceeds from sale of other intangible assets	12	-	31 068
Purchase of financial assets		(100)	-
Decrease / (Increase) in current portion of long-term receivables		(19 813)	19 382
Decrease / (Increase) in long-term receivables		(263 240)	62 888
Net cash flows from investing activities		**(324 117 844)**	**(301 928 236)**
Cash flows from financing activities			
Repayment of other financial liabilities		(16 979 493)	(18 759 657)
Finance lease payments		(3 504 496)	(4 720 607)
Net cash flows from financing activities		**(20 483 989)**	**(23 480 264)**
Net increase/(decrease) in cash and cash equivalents		**75 594 341**	**88 770 709**
Cash and cash equivalents at the beginning of the year		157 327 897	68 557 188
Cash and cash equivalents at the end of the year	9	**232 922 238**	**157 327 897**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	378 550 964	15 250 000	**393 800 964**	295 020 086	**(98 780 878)**	
Rental of facilities and equipment	2 486 519	(114 925)	**2 371 594**	2 430 265	**58 671**	
Other income	5 215 072	50 000	**5 265 072**	14 980 970	**9 715 898**	
Interest received - investment	8 025 321	2 400 000	**10 425 321**	18 995 968	**8 570 647**	
Total revenue from exchange transactions	**394 277 876**	**17 585 075**	**411 862 951**	**331 427 289**	**(80 435 662)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	648 345 000	99 029 836	**747 374 836**	722 408 093	**(24 966 743)**	
'Total revenue from exchange transactions'	394 277 876	17 585 075	**411 862 951**	331 427 289	**(80 435 662)**	
'Total revenue from non-exchange transactions'	648 345 000	99 029 836	**747 374 836**	722 408 093	**(24 966 743)**	
Total revenue	**1 042 622 876**	**116 614 911**	**1 159 237 787**	**1 053 835 382**	**(105 402 405)**	
Expenditure						
Personnel	(249 471 702)	(9 749 358)	**(259 221 060)**	(267 421 308)	**(8 200 248)**	
Remuneration of councillors	(10 254 226)	(639 250)	**(10 893 476)**	(8 689 921)	**2 203 555**	
Depreciation and amortisation	(64 022 419)	-	**(64 022 419)**	(171 578 396)	**(107 555 977)**	
Impairment loss/ Reversal of impairments	(21 019 155)	-	**(21 019 155)**	(161 924 814)	**(140 905 659)**	
Finance costs	(18 950 359)	-	**(18 950 359)**	(12 812 707)	**6 137 652**	
Lease rentals on operating lease	(1 936 000)	(178 000)	**(2 114 000)**	(1 877 034)	**236 966**	
Repairs and maintenance	(48 704 835)	9 076 585	**(39 628 250)**	(52 560 496)	**(12 932 246)**	
Bulk purchases	(49 500 000)	(5 575 862)	**(55 075 862)**	(52 626 127)	**2 449 735**	
Contracted Services	(24 683 880)	395 950	**(24 287 930)**	(19 827 306)	**4 460 624**	
Transfers and Subsidies	(106 753 172)	(7 679 175)	**(114 432 347)**	(45 521 982)	**68 910 365**	
General Expenses	(118 164 274)	(6 584 569)	**(124 748 843)**	(108 703 466)	**16 045 377**	
Other materials	(8 184 000)	(1 551 199)	**(9 735 199)**	-	**9 735 199**	
Total expenditure	**(721 644 022)**	**(22 484 878)**	**(744 128 900)**	**(903 543 557)**	**(159 414 657)**	
	1 042 622 876	116 614 911	**1 159 237 787**	1 053 835 382	**(105 402 405)**	
	(721 644 022)	(22 484 878)	**(744 128 900)**	(903 543 557)	**(159 414 657)**	
Operating surplus	**320 978 854**	**94 130 033**	**415 108 887**	**150 291 825**	**(264 817 062)**	
Gain on disposal of assets and liabilities	-	-	**-**	883 418	**883 418**	
Fair value adjustments	-	-	**-**	(4 200 000)	**(4 200 000)**	
	-	**-**	**-**	**(3 316 582)**	**(3 316 582)**	
	320 978 854	94 130 033	**415 108 887**	150 291 825	**(264 817 062)**	
	-	-	**-**	(3 316 582)	**(3 316 582)**	
Surplus before taxation	**320 978 854**	**94 130 033**	**415 108 887**	**146 975 243**	**(268 133 644)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8 621 840	-	**8 621 840**	14 426 468	**5 804 628**	
Current portion of long-term receivables	60 485	-	**60 485**	51 855	**(8 630)**	
Operating lease asset	-	-	**-**	28 410	**28 410**	
Receivables from non-exchange transactions	28 224 336	(24 000 000)	**4 224 336**	50 504 488	**46 280 152**	
Receivables from exchange transactions	66 130 366	30 460 000	**96 590 366**	95 058 018	**(1 532 348)**	
Cash and cash equivalents	95 202 397	92 723 075	**187 925 472**	259 074 427	**71 148 955**	
	198 239 424	**99 183 075**	**297 422 499**	**419 143 666**	**121 721 167**	
Non-Current Assets						
Investment property	22 500 000	-	**22 500 000**	29 403 251	**6 903 251**	
Property, plant and equipment	2 479 816 581	(193 234 000)	**2 286 582 581**	3 589 917 755	**1 303 335 174**	
Intangible assets	11 710 000	-	**11 710 000**	8 933 645	**(2 776 355)**	
Investments	-	-	**-**	200	**200**	
Long-term receivables	77 505	-	**77 505**	270 644	**193 139**	
	2 514 104 086	**(193 234 000)**	**2 320 870 086**	**3 628 525 495**	**1 307 655 409**	
Non-Current Assets	198 239 424	99 183 075	**297 422 499**	419 143 666	**121 721 167**	
Current Assets	2 514 104 086	(193 234 000)	**2 320 870 086**	3 628 525 495	**1 307 655 409**	
Total Assets	**2 712 343 510**	**(94 050 925)**	**2 618 292 585**	**4 047 669 161**	**1 429 376 576**	
Liabilities						
Current Liabilities						
Current portion of long-term liabilities	18 740 711	-	**18 740 711**	18 915 505	**174 794**	
Finance lease obligation	-	-	**-**	3 063 785	**3 063 785**	
Operating lease liability	-	-	**-**	50 643	**50 643**	
Payables from exchange transactions	168 304 050	-	**168 304 050**	149 683 332	**(18 620 718)**	
VAT payable	-	-	**-**	855 061	**855 061**	
Consumer deposits	19 580 348	-	**19 580 348**	20 034 005	**453 657**	
Unspent conditional grants and receipts	-	-	**-**	21 365 817	**21 365 817**	
Provisions	1 874 250	70 723	**1 944 973**	19 761 585	**17 816 612**	
Bank overdraft	-	-	**-**	26 152 189	**26 152 189**	
	208 499 359	**70 723**	**208 570 082**	**259 881 922**	**51 311 840**	
Non-Current Liabilities						
Long-term liabilities	150 077 000	-	**150 077 000**	144 531 365	**(5 545 635)**	
Retirement benefit liabilities	29 742 307	196 375	**29 938 682**	15 250 105	**(14 688 577)**	
Other long-term employee benefits	-	-	**-**	13 234 057	**13 234 057**	
	179 819 307	**196 375**	**180 015 682**	**173 015 527**	**(7 000 155)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	208 499 359	70 723	**208 570 082**	259 881 922	**51 311 840**	
	179 819 307	196 375	**180 015 682**	173 015 527	**(7 000 155)**	
	-	-	**-**	-	**-**	
Total Liabilities	**388 318 666**	**267 098**	**388 585 764**	**432 897 449**	**44 311 685**	
Assets	2 712 343 510	(94 050 925)	**2 618 292 585**	4 047 669 161	**1 429 376 576**	
Liabilities	(388 318 666)	(267 098)	**(388 585 764)**	(432 897 449)	**(44 311 685)**	
Net Assets	**2 324 024 844**	**(94 318 023)**	**2 229 706 821**	**3 614 771 712**	**1 385 064 891**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	2 324 024 844	(94 318 023)	**2 229 706 821**	3 614 771 712	**1 385 064 891**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	298 313 548	9 691 275	**308 004 823**	287 304 854	**(20 699 969)**	
Grants	634 186 099	98 859 531	**733 045 630**	706 253 174	**(26 792 456)**	
Interest income	4 600 000	4 024 621	**8 624 621**	18 995 968	**10 371 347**	
	937 099 647	**112 575 427**	**1 049 675 074**	**1 012 553 996**	**(37 121 078)**	
Payments						
Employee costs	(265 083 550)	(10 603 390)	**(275 686 940)**	(276 111 229)	**(424 289)**	
Finance costs	-	(15 025 264)	**(15 025 264)**	(12 812 707)	**2 212 557**	
Other payments	(317 013 740)	29 564 874	**(287 448 866)**	(303 433 886)	**(15 985 020)**	
	(582 097 290)	**3 936 220**	**(578 161 070)**	**(592 357 822)**	**(14 196 752)**	
Total receipts	937 099 647	112 575 427	**1 049 675 074**	1 012 553 996	**(37 121 078)**	
Total payments	(582 097 290)	3 936 220	**(578 161 070)**	(592 357 822)	**(14 196 752)**	
Net cash flows from operating activities	**355 002 357**	**116 511 647**	**471 514 004**	**420 196 174**	**(51 317 830)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(336 566 128)	(84 638 536)	**(421 204 664)**	(322 240 016)	**98 964 648**	
Proceeds from sale of property, plant and equipment	-	-	**-**	885 269	**885 269**	
Purchase of other intangible assets	-	-	**-**	(2 479 944)	**(2 479 944)**	
Purchase of financial assets	-	-	**-**	(100)	**(100)**	
Decrease / (Increase) in current portion of long-term receivables	-	-	**-**	(19 813)	**(19 813)**	
Decrease / (Increase) in long-term receivables	-	-	**-**	(263 240)	**(263 240)**	
Net cash flows from investing activities	**(336 566 128)**	**(84 638 536)**	**(421 204 664)**	**(324 117 844)**	**97 086 820**	
Cash flows from financing activities						
Repayment of financial liabilities	(19 740 711)	365 289	**(19 375 422)**	(16 979 493)	**2 395 929**	
Finance lease payments	-	-	**-**	(3 504 496)	**(3 504 496)**	
Proceeds from new loans raised	20 000 000	(20 000 000)	**-**	-	**-**	
Net cash flows from financing activities	**259 289**	**(19 634 711)**	**(19 375 422)**	**(20 483 989)**	**(1 108 567)**	
Net increase/(decrease) in cash and cash equivalents	18 695 518	12 238 400	**30 933 918**	75 594 341	**44 660 423**	
Cash and cash equivalents at the beginning of the year	156 050 000	-	**156 050 000**	157 327 897	**1 277 897**	
Cash and cash equivalents at the end of the year	**174 745 518**	**12 238 400**	**186 983 918**	**232 922 238**	**45 938 320**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Changes in accounting policy and comparability

Accounting policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2014 and 30 June 2015 the municipality has adopted the accounting framework as set out in Note 2. The details of any resulting changes in accounting policy and comparative restatements are set out in the relevant Notes to the annual financial statements.

The municipality changes an accounting policy only if the change:
- Is required by a Standard of GRAP; or
- Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions, on the municipality’s financial position, financial performance or cash flow.

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 21.

Allowance for doubtful debts

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

1.4 Going concern assumption

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

1.5 Budget information

Economic Entities 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 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.

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

1.5 Budget information (continued)

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 53 & 54.

Comparative information is not required.

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

The carrying amount of an item of investment property is derecognised on disposal. The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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.

Accounting Policies

1.7 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.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the economic entity applied deemed cost to Property, Plant and Equipment, where the acquisition cost of an asset could not be determined.

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings - Improvements	Straight line	5 to 30 years
Infrastructure - Security measures	Straight line	7 to 25 years
Infrastructure - Sewerage	Straight line	7 to 60 years

1.7 Property, plant and equipment (continued)

Infrastructure - Water	Straight line	5 to 100 years
Community - Sports facilities	Straight line	5 to 30 years
Community - Other facilities	Straight line	5 to 30 years
Other - Computer equipment	Straight line	3 to 10 years
Other - Furniture and fittings	Straight line	3 to 15 years
Other - Office equipment	Straight line	4 to 15 years
Other - Plant and equipment	Straight line	2 to 15 years
Other - Specialised vehicles	Straight line	10 to 15 years
Other - Other movable assets	Straight line	5 to 15 years

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

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

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

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

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

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

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

1.8 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.

Accounting Policies

1.8 Intangible assets (continued)

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	2 to 5 years
Intangible assets under development	Infinitive

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

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

1.9 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.10 Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

1.10 Financial instruments (continued)

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Accounting Policies

1.10 Financial instruments (continued)

Classification

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

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

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

Class	Category
Annuity loans	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.10 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

1.10 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Accounting Policies

1.10 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.10 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.11 Tax

Value added tax

The Municipality accounts for value added tax on the payments basis in accordance with section 15(2)(a) of the value added tax act (Act No 89 of 1991).

The entities accounts for value added tax on the invoice basis in accordance with section 15(1) of the value added tax act (Act No 89 of 1991).

1.12 Leases

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

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

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the 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.

1.12 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.13 Inventories

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

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

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

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

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

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

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

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

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

Consumable stores, maintanance stores, and water:

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If Inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water inventory:

1.13 Inventories (continued)

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the First In First Out Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

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

1.14 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.

1.14 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

1.14 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

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

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

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

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

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.15 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Restoration cost approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.16 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

1.16 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

Other post retirement obligations

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

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

1.17 Provisions and contingent assets and contingent liabilities

Provisions are recognised when:

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

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

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

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

1.17 Provisions and contingent assets and contingent liabilities (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

1.17 Provisions and contingent assets and contingent liabilities (continued)

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

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

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

1.18 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Accounting Policies

1.19 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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

Service charges

Service charges are levied in terms of approved tariffs.

Service charges from water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by the Council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Finance income

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest earned on investments is recognised in the statement of financial performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance:

(i) Interest earned on unspent conditional grants is allocated directly to the creditor: Unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

Rentals received

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

Tariff charges

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

1.20 Revenue from non-exchange transactions

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

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

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

Measurement

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

Grants in aid

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

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

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

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

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

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

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Public contributions and donations received

Public contributions and donations received are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

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

1.21 Investment income

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

1.22 Borrowing costs

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

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

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

1.23 Unauthorised expenditure

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

Accounting Policies

1.25 Irregular expenditure (continued)

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

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

1.26 Related parties

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

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

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

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

1.27 Comparative figures

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

Current year comparative

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the annual financial statements.

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

Budget information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the council for the preparation of these annual financial statements. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the annual financial statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

1.28 Events after reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

1.28 Events after reporting date (continued)

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 107: Mergers	01 April 2015	The impact of the amendment is not material.
• GRAP 20: Related parties	01 April 2016	Municipality has only resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements. The Municipality has not adopted the whole GRAP 20.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	The impact of the amendment is not material.
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	The impact of the amendment is not material.
• IGRAP 11: Consolidation – Special purpose entities	01 April 2015	The impact of the amendment is not material.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015	The impact of the amendment is not material.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2015	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016	Not yet effective
• GRAP108: Statutory Receivables	01 April 2016	Not yet effective
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	Not yet effective
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	Not yet effective

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.3 Standards and interpretations not yet effective or relevant

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	The impact of the amendment is not material

3. Inventories

Consumable stores	7 322 970	1 332 919
Maintenance materials	6 673 837	6 287 305
Water	429 661	438 534
Other goods held for resale	-	10 657
	14 426 468	**8 069 415**

Inventories are held for own use, and the damaged or obsolete stock has been written down to lower of cost or net realisable value where necessary.

The cost of water production for the year amounted to R1,87 per kilolitre (2014: R1,78 per kilolitre).

No inventories have been pledged as collateral for liabilities of the municipality.

4. Long-term receivables

At amortised cost		
Sundry loans	310 271	3 893
The sundry loans are not secured and are interest free. The average term of these loans 1 to 5 years.		
Relocation costs	12 228	35 553
Relocation costs are interest free and are recoverable from the employee when the agreed terms of employment contract are not honoured. The average term of these loans are 3 years.		
	322 499	39 446
Impairments	-	-
	322 499	**39 446**

Non-current assets		
At amortised cost	270 644	7 404
Current assets		
At amortised cost	51 855	32 042
Non-current assets	270 644	7 404
Current assets	51 855	32 042
	322 499	**39 446**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Operating lease asset (accrual)

Current assets	28 410	57 450
Current liabilities	(50 643)	(59 991)
	(22 233)	**(2 541)**

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable operating leases the current assets and current liabilities (accrual) have been recognised as above.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Operating lease asset (accrual) (continued)

Operating lease asset		
Balance at beginning of year	57 450	43 785
Operating lease revenue recorded	968 235	889 586
Operating lease revenue from smoothing	(997 275)	(875 921)
Total operating lease asset	**28 410**	**57 450**

Lease arrangements

The Municipality as lessor

Operating leases relate to property owned by the municipality with lease terms of between 1 to 3 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Amounts receivable under operating leases

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as follows:

Up to one year	443 024	934 117
Two to five years	901 844	228 287
Total	**1 344 868**	**1 162 404**

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been a decrease in current year income of R28 410 (2014: R57 450).

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

(i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.

(ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.

(iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

Operational lease accrual

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

Operating lease accrual		
Balance at beginning of year	59 991	34 011
Operating lease expenses	1 836 764	686 812
Operating lease payments from smoothing	(1 846 112)	(660 832)
Total operating lease accrual	**50 643**	**59 991**

Leasing arrangements

The Municipality as lessee

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Amounts payable under operating lease

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Operating lease asset (accrual) (continued)

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

Within one year	827 632	849 670
In the second to third years, inclusive	415 667	477 272
Over three years	165 443	128 534
	1 408 742	**1 455 476**

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	1 836 763	686 812

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

(i) The equipment shall remain the property of the lessor.

(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.

(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

(iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

6. Receivables from non-exchange transactions

Payments made in advance	14 169 625	11 661 262
Government grants and subsidies	24 842 210	236 950
Insurance claims	122 367	122 367
Municipal entities	50 979	66 846
Sundry deposits	808 432	808 432
Sundry debtors	10 510 875	549 837
	50 504 488	**13 445 694**

The average credit period for government grants and subsidies is dependent on the government department involved and the nature of the claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

Insurance claims are amounts which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Sundry receivables are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

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

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality’s financial liabilities.

Figures in Rand	2015	2014

6. Receivables from non-exchange transactions (continued)

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2015, R 10 737 228 (2014: R 8 633 318) were past due but not impaired.

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

3 months past due	10 737 228	8 633 318

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

Opening balance	8 918 964	1 962 583
Contributions	-	9 545 502
Amounts written off as uncollectable	(6 053 415)	(2 589 121)
	2 865 549	**8 918 964**

The Provision for Impairment on receivables exists predominantly due to the possibility that these amounts may not be recovered. The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to most of these being sundry in nature.

The following Loans and Receivables are included in the total amount of the provision for impairment:

Government subsidy claims	1 613 200	1 613 200
Sundry debtors	-	9 818 965
Total provision for impairment on receivables from non-exchange transactions	**1 613 200**	**11 432 165**

7. VAT receivable

VAT	-	6 069 735

The municipality has identified that amount vat output has been overstated during the prior financial periods. Therefore balances of Vat have been accordingly restated retrospectively. (See note: 46)

VAT is payable on the payments basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

8. Receivables from exchange transactions

Gross balances		
Water rates	39 448 907	33 517 928
Water	159 112 650	133 741 989
Sewerage	61 408 041	52 387 299
Other trade	5 466 626	5 460 375
	265 436 224	**225 107 591**
Less: Allowance for impairment		
Water rates	(24 184 196)	(20 865 280)
Water	(102 222 236)	(58 827 715)
Sewerage	(40 239 667)	(11 224 857)
Other trade	(3 732 107)	(3 732 107)
	(170 378 206)	**(94 649 959)**
Net balance		
Water rates	15 264 711	12 652 648
Water	56 890 414	74 914 274
Sewerage	21 168 374	41 162 442
Other trade	1 734 519	1 728 268
	95 058 018	**130 457 632**
Water rates		
Current (0 -30 days)	3 029 748	2 808 935
31 - 60 days	77 718	3 910
61 - 90 days	57 418	16 310
+90 days	12 099 827	9 823 493
	15 264 711	**12 652 648**
Water		
Current (0 -30 days)	14 119 066	22 884 008
31 - 60 days	4 408 069	3 689 465
61 - 90 days	3 483 731	4 083 216
+90 days	34 879 548	44 257 585
	56 890 414	**74 914 274**
Sewerage		
Current (0 -30 days)	8 446 128	6 885 203
31 - 60 days	2 525 068	2 099 131
61 - 90 days	2 377 970	1 971 654
+90 days	7 819 208	30 206 454
	21 168 374	**41 162 442**
Other trade		
+90 days	1 734 519	1 728 268

The management of the municipality is of the opinion that the carrying trade value of receivables approximate their fair values.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

8. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(94 649 959)	(91 461 900)
Contributions to allowance	(85 629 566)	(10 717 442)
Debt impairment written off against allowance	9 901 319	9 609
Reversal of allowance	-	7 519 774
	(170 378 206)	**(94 649 959)**

The prior year comparative balances have been accordingly restated retrospectively. (See note: 46)

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	36 989 962	152 373 720
Short-term deposits	222 079 555	8 292 741
Other cash and cash equivalents	4 910	4 910
Bank overdraft	(26 152 189)	(3 343 474)
	232 922 238	**157 327 897**

Current assets	259 074 427	160 671 371
Current liabilities	(26 152 189)	(3 343 474)
	232 922 238	**157 327 897**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, cash and cash equivalents include cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

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

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

Credit rating		
Long-term (AAA) Short-term (F1+)	47 164 170	156 585 295
Long-term (AA) Short-term (F1+)	120 018 266	17 465
Long-term (A+) Short-term (F1)	65 000 000	-
Other	734 892	720 227
	232 917 328	**157 322 987**

Figures in Rand	2015	2014

9. Cash and cash equivalents (continued)

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 - Port Shepstone - Account Number 406 668 6529 (Primary Bank Account):	83 756	106 422	417 315	(16 321 139)	5 568	4 544
ABSA BANK - Port Shepstone - Account Number 406 668 6472 (General Bank Account):	3 223 172	(1 522 481)	470 667	(5 017 457)	(3 343 474)	(3 195 209)
ABSA BANK - Port Shepstone - Account Number 406 668 6294 (Collection Account):	83 317	897 611	742 351	59 381	873 676	716 280
ABSA BANK - Port Shepstone - Account Number 406 671 0647 (Consumer Deposits Bank Account):	740 365	2 874 066	2 450 698	(66 618)	654 262	519 870
ABSA BANK - Port Shepstone - Account Number 406 660 3763 (Salaries Account):	(56 150)	259 244	136 729	(56 150)	140 753	57 474
ABSA BANK - Port Shepstone - Account Number 406 757 0977 (Sanlam Group Life Account):	4 165 110	4 148 944	4 116 840	4 165 110	4 114 803	4 116 840
ABSA BANK - Port Shepstone - Account Number 406 668 6367 (MIG Project Account):	(4 690 825)	120 005	379 597	(4 690 825)	120 005	379 597
ABSA BANK - Port Shepstone - Account Number 407 187 0797 (Disaster Account):	-	199 600	200 370	-	199 600	200 370
ABSA BANK - Port Shepstone - Account Number 407 198 0239 (Market Account):	-	371 245	371 998	-	371 245	371 998
ABSA BANK - Port Shepstone - Account Number 407 626 7341 (EFF Bank Account):	-	1 640	2 346	-	1 640	2 346
ABSA BANK - Port Shepstone - Account Number 407 755 1917 (Conditional Grants Account):	32 765 471	145 892 168	52 656 911	32 765 471	145 892 168	52 656 911
Total	**36 314 216**	**153 348 464**	**61 945 822**	**10 837 773**	**149 030 246**	**55 831 021**

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents.

10. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	29 403 251	-	29 403 251	14 600 000	-	14 600 000

The Municipality has classified the Ugu Fresh Produce Market as investment property in terms of its asset management policy. The property is situated at Bhobhoyi – in the Port Shepstone Town Planning Scheme, lot no 3249 and measures approximately 85 000 square metres. The market offers 18 vendor stalls for retailers, refrigerated storage, a wholesale/agents sales hall, a state-of-the-art multi-purpose ripening facility, an office block, ample parking space, a taxi rank and plenty ablution facilities. The whole facility is secured with 24-hour security guards.

The municipality uses the fair value model to value its investment properties. For the year ending 30 June 2015 a fair value assessment was undertaken by Pierre Rynners Valuers. The valuation methodology applied is the income capitalisation approach, were by the net rental income is capitalised at an appropriate rate, in order to arrive at an estimate of market value. A fair value adjustment has been affected in the financial statements valuation.

Reconciliation of investment property - 2015

	Opening balance	**Transfers received**	**Fair value adjustments**	**Total**
Investment property	14 600 000	19 003 251	(4 200 000)	29 403 251

Reconciliation of investment property - 2014

	Opening balance	**Fair value adjustments**	**Total**
Investment property	25 000 000	(10 400 000)	14 600 000

Fair value of investment properties	29 451 206	14 600 000

Pledged as security

No investment properties have been pledged as collateral for liabilities of the municipality.

Revenue and expenditure disclosed in the Statement of Financial Performance include the following:

Rental revenue earned from Investment Property	1 283 662	1 726 310
Direct operating expenses	(784 341)	(824 534)
	499 321	**901 776**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	181 659 884	(33 381 441)	148 278 443	174 744 924	(31 148 267)	143 596 657
Infrastructure	7 610 725 495	(4 210 315 457)	3 400 410 038	7 308 129 989	(4 056 645 239)	3 251 484 750
Community	-	-	-	115 714 417	(18 730 980)	96 983 437
Other property, plant and equipment	141 924 495	(100 695 221)	41 229 274	130 411 822	(91 876 836)	38 534 986
Total	**7 934 309 874**	**(4 344 392 119)**	**3 589 917 755**	**7 729 001 152**	**(4 198 401 322)**	**3 530 599 830**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Buildings	143 596 657	8 794 374	-	-	(1 879 415)	(2 233 173)	-	148 278 443
Infrastructure	3 251 484 750	302 595 505	-	-	-	(153 670 217)	-	3 400 410 038
Community	96 983 437	-	-	-	(17 123 836)	(3 564 353)	(76 295 248)	-
Other property, plant and equipment	38 534 986	10 850 137	(1 851)	810 785	-	(8 964 783)	-	41 229 274
	3 530 599 830	**322 240 016**	**(1 851)**	**810 785**	**(19 003 251)**	**(168 432 526)**	**(76 295 248)**	**3 589 917 755**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	141 960 967	3 860 565	-	(2 224 875)	143 596 657
Infrastructure	3 114 229 505	287 344 356	-	(150 089 111)	3 251 484 750
Community	102 329 964	-	-	(5 346 527)	96 983 437
Other property, plant and equipment	37 885 191	12 333 212	(10 657)	(11 672 760)	38 534 986
	3 396 405 627	**303 538 133**	**(10 657)**	**(169 333 273)**	**3 530 599 830**

The prior year comparative balances have been accordingly restated retrospectively. (See note: 46)

Pledged as security

The municipality’s obligations under Finance Leases (see Note 15) are secured by the lessors’ title to the leased assets. No other assets of the municipality have been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. Property, plant and equipment (continued)

Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	5 to 30 years
Furniture and fixtures	Straight line	3 to 15 years
Motor vehicles	Straight line	4 to 15 years
Office equipment	Straight line	3 to 15 years
IT equipment	Straight line	3 to 10 years
Infrastructure - Security measures	Straight line	7 to 25 years
Infrastructure - Sewerage	Straight line	7 to 60 years
Infrastructure - Water	Straight line	5 to 100 years
Community	Straight line	5 to 30 years
Other property, plant and equipment	Straight line	2 to 15 years
Other assets	Straight line	5 to 30 years
Sports facilities	Straight line	5 to 30 years
Other facilities	Straight line	5 to 30 years
Specialised vehicles	Straight line	10 to 15 years

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.

Owner-occupied property transferred to investment property

The municipality had taken a decision in the 2014/15 financial year that Ugu Sports and Leisure, previously owner occupied and carried under the cost model, will as at 01 March 2015 will be held to earn rentals and should therefore be transferred to investment property carried under the fair value model.

	2015	2014
Ugu Sports and Leisure		
Cost	115 714 416	-
Accumulated depreciation and impairment losses	(18 730 980)	-
Opening Balance	96 983 436	-
Depreciation	(3 564 352)	-
Impairment loss	(76 295 248)	-
Carrying amount of transfers	**17 123 836**	**-**
Cost	115 714 416	-
Accumulated depreciation and impairment losses	(98 590 580)	-
Transfer to investment property (See note 10)	**17 123 836**	**-**
Land (Ugu Sports and Leisure)		
Cost	1 927 370	-
Total assets transferred from PPE to Investment Property		
Cost	117 641 785	-
Accumulated depreciation and impairment losses	(98 590 580)	-
Total transfer to investment property (See note 10)	**19 051 205**	**-**

Notes to the Annual Financial Statements

12. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	31 784 821	(25 510 336)	6 274 485	29 304 877	(22 364 465)	6 940 412
Other intangible assets	2 659 160	-	2 659 160	2 659 160	-	2 659 160
Total	**34 443 981**	**(25 510 336)**	**8 933 645**	**31 964 037**	**(22 364 465)**	**9 599 572**

Reconciliation of intangible assets - 2015

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	6 940 412	2 479 944	(3 145 870)	6 274 486
Servitudes	2 659 160	-	-	2 659 160
	9 599 572	**2 479 944**	**(3 145 870)**	**8 933 646**

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software	7 655 381	2 389 363	(31 068)	(3 073 264)	6 940 412
Servitudes	2 579 373	79 787	-	-	2 659 160
	10 234 754	**2 469 150**	**(31 068)**	**(3 073 264)**	**9 599 572**

The amortisation expense has been included in the line item “Depreciation and amortisation” in the Statement of Financial Performance (see note 30)

Pledged as security

No intangible assets have been pledged as security for any liabilities of municipality.

Restrictions

The following restrictions apply to Intangible Assets:

- Financial Software:

(i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system

(ii) The system may be used on only one database at any one time.

(iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party’s benefit.

(iv) The municipality has no intellectual property rights to the system.

Refer to Appendix “B” for more detail on Intangible Assets.

Notes to the Annual Financial Statements

12. Intangible assets (continued)

Significant intangible assets

Significant Intangible Assets, that did not meet the recognition criteria for Intangible Assets as stipulated in IAS 38 and SIC 32, are the following:

(i) Website Costs incurred during the last two financial years have been expensed and not recognised as intangible assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

Intangible assets with indefinite lives:

The following classes of Intangible Assets are not amortised as they are regarded as having indefinite useful lives:

	2015	2014
Carrying value of servitudes: sewerage distribution	1 486 723	1 486 723
Carrying value of servitudes: water reticulation	1 172 437	1 172 437
Total carrying amount of intangible assets with indefinite useful lives	**2 659 160**	**2 659 160**

Servitudes are regarded as having indefinite useful lives as they are registered permanently, the agreements not having a maturing date.

13. Investments

Name of company	Held by	% holding 2015	% holding 2014	Carrying amount 2015	Carrying amount 2014
Ugu South Coast Tourism (Pty) Ltd	Ugu District Municipality	100,00 %	100,00 %	100	100
South Coast Development Agency NPC	Ugu District Municipality	100,00 %	- %	100	-
				200	**100**

	2015	2014
Grants allocated to the entities:		
Ugu South Coast Tourism (Pty) Ltd	11 043 743	10 517 850
South Coast Development Agency NPC	5 000 000	-
	16 043 743	**10 517 850**

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

The municipality exercises control in the following companies:

Ugu South Coast Tourism (Pty) Ltd is located and commencing its operations on 1 July 2009 in the Ugu District Municipal area, where the value of the investment is considered to be R100, being the issued share capital; and

South Coast Development Agency, Hibiscus Coast Local Municipality has entered in a Memorandum of Understanding to transfer of this company to Ugu District Municipality as from 01 July 2014.

All thirteen members serving on the board of directors of the municipal entity are nominated by the municipality’s executive committee (13/13 = 100.00%).

14. Long-term liabilities

	2015	2014
At amortised cost		
Annuity loans	163 446 870	180 426 363

Annuity loans are repaid over periods varying from 1 to 15 (2014: 1 to 16) years and at interest rates varying from 2,65% to 11,51% (2014: 2,65% to 11,5%) per annum. Annuity loans are not secured.

Refer to Appendix “A” for more detail on external loans.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

14. Long-term liabilities (continued)

Non-current liabilities		
At amortised cost - Annuity loans	144 531 365	162 157 394
Current liabilities		
At amortised cost - Annuity loans	18 915 505	18 268 969

15. Finance lease obligation

Minimum lease payments due		
- within one year	3 161 125	3 828 217
- in second to fifth year inclusive	-	3 161 125
	3 161 125	6 989 342
less: future finance charges	(97 339)	(421 061)
Present value of minimum lease payments	**3 063 786**	**6 568 281**
Present value of minimum lease payments due		
- within one year	3 063 785	3 504 496
- in second to fifth year inclusive	-	3 063 785
	3 063 785	**6 568 281**
Non-current liabilities	-	3 206 864
Current liabilities	3 063 785	3 361 417
	3 063 785	**6 568 281**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 1 (2014: 2) years and the average effective borrowing rate was 6,6% (2014: 6,6%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

16. Payables from exchange transactions

Trade payables	20 410 887	19 712 203
Other creditors	92 923 840	54 262 882
Retentions	25 477 004	18 419 769
Projects	332 811	4 298 519
Staff bonuses	10 538 790	9 664 818
	149 683 332	**106 358 191**

The prior year comparative balances have been accordingly restated retrospectively. (See note: 46)

17. VAT payable

Tax refunds payables	855 061	-

VAT is payable on the payments basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

18. Consumer deposits

Water	20 034 005	19 724 662

Guarantees held in lieu of water deposits	495 780	495 780

19. Unspent government grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
National government grants	12 411 978	20 190 917
Provincial government grants	604 676	3 056 149
Other spheres of government	8 349 163	25 086 023
	21 365 817	**48 333 089**

The nature and extent of government grants recognised in the 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.

Refer to appendix "F" for more detail on conditional grants.

20. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Leave pay provision	Increase / (decrease) in contributions to provision	Total
Current portion of post-retirement medical aid benefits liability	881 832	-	62 844	944 676
Current portion of long-service awards	594 544	-	276 771	871 315
Performance bonus provision	333 762	-	237 459	571 221
Leave pay provision	14 589 341	(33 367)	2 818 399	17 374 373
	16 399 479	**(33 367)**	**3 395 473**	**19 761 585**

Reconciliation of provisions - 2014

	Opening Balance	Leave pay provision	Increase / (decrease) in contributions to provision	Total
Current portion of post-retirement medical aid benefits liability	854 208	-	27 624	881 832
Current portion of long-service awards	931 680	-	(337 136)	594 544
Performance bonus provision	-	-	333 762	333 762
Leave pay provision	15 268 299	(21 832)	(657 126)	14 589 341
	17 054 187	**(21 832)**	**(632 876)**	**16 399 479**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

21. Retirement benefit liabilities

Post retirement health care benefits liability

Post-retirement health care benefits liability		Restated
Reported opening balance	-	24 268 971
Prior year correction of error	-	(10 075 651)
Balance at beginning of year	13 524 137	14 193 320
Contributions to provision	1 850 416	1 830 622
Balance at beginning of the year	15 374 553	16 023 942
Transfer to current provisions	(944 676)	(881 832)
Actuarial Loss/ (Gain)	820 228	(1 617 973)
Total	**15 250 105**	**13 524 137**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member is entitled to continue as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The members of the post-employment health care benefit plan are made up as follows:

	Number of employees	Number of employees
In-service members (employees)	510	494
Continuation members	52	49
Total	**562**	**543**

The unfunded liability in respect of past service has been estimated as follows:

In-service members	7 936 377	7 936 377
Continuation members	8 258 404	7 817 113
	16 194 781	**15 753 490**

The current-service cost for the year ending 30 June 2015 is estimated to be R610 859, whereas the cost for the ensuing year is estimated to be R746 952 (30 June 2014: R633 146 and R610 859 respectively).

Key assumptions used

The principal assumptions used for the purposes of the actuarial valuations was as follows:

Discount rates	8,81%	8,87%
Health care cost inflation	7,95%	8,11%
Net effective discount rate	0,80%	0,70%
Expected retirement age - females	63	63
Expected retirement age - males	63	63

Movements in the present value of the defined benefit obligation were as follows:

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

21. Retirement benefit liabilities (continued)

Balance at beginning of the year	14 405 969	15 047 528
Current service costs	610 859	633 146
Interest cost	1 239 557	1 197 476
Benefits paid	(881 832)	(854 208)
Actuarial loss / (gain)	820 228	(1 617 973)
Balance at end of the year	**16 194 781**	**14 405 969**

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	610 859	633 146
Interest cost	1 239 557	1 197 476
Actuarial losses/ (gains)	820 228	(1 617 973)
	2 670 644	**212 649**

The history of experienced adjustments is as follows:

	2015	2014	2013	2012	2011	2010
Present value of defined benefit obligation	16 194 781	14 405 969	22 229 850	19 731 792	22 877 435	20 526 171
Deficit	16 194 781	14 405 969	22 229 850	19 731 792	22 877 435	20 526 171
Experienced adjustments on plan	729 000	(583 000)	(488 790)	(6 769 737)	1 949 195	(214 812)
	16 923 781	**13 822 969**	**21 741 060**	**12 962 055**	**24 826 630**	**20 311 359**

Other assumptions

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

2015	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	4 400	(5 900)
Effect on defined benefit obligation	(78 100)	92 400
	(73 700)	**86 500**

2014	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	6 500	(8 800)
Effect on defined benefit obligation	(77 500)	92 400
	(71 000)	**83 600**

The municipality expects to make a contribution of R3,077 million (2014: R3,224 million) to the defined benefit plans during the next financial year.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Other long-term employee benefits

Provision for long-service awards	13 234 057	11 076 109

The movement in non-current provisions are reconciled as follows:

Long-term service		
Balance at beginning of year	11 076 109	8 440 747
Contributions to provision	3 029 263	3 229 906
	14 105 372	11 670 653
Transfer to current provisions	(871 315)	(594 544)
Balance at end of year	**13 234 057**	**11 076 109**

A long-service Award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 858 (2014: 835) employees were eligible for long-service awards.

The current-service cost for the year ending 30 June 2015 is estimated to be R1 224 950, whereas the cost for the ensuing year is estimated to be R1 560 803 (30 June 2014: R1 107 699 and R1 224 950 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rates used	8,16%	8,21%
Cost inflation rate	7,17%	7,28%
Expected retirement age - females	63	63
Expected retirement age - males	63	63

Movements in the present value of the defined benefit obligation were as follows:

Balance at beginning of the year	11 670 653	9 372 427
Current service cost	1 244 950	1 107 699
Interest cost	933 835	674 101
Benefits paid	(594 544)	(931 680)
Actuarial losses / (gains)	850 478	1 448 106
Present value of fund obligation at end of the year	**14 105 372**	**11 670 653**

The history of experienced adjustments is as follows:

	2015	2014	2013	2012	2011	2010
Present value of defined benefit obligation	14 105 372	11 670 653	9 150 868	9 765 467	9 366 466	6 870 116
Deficit	14 105 372	11 670 653	9 150 868	9 765 467	9 366 466	6 870 116
Unrecognised actuarial gains/ (losses)	910 954	1 671 011	(1 664 673)	(991 516)	870 061	755 438
Total post-retirement benefit	**15 016 326**	**13 341 664**	**7 486 195**	**8 773 951**	**10 236 527**	**7 625 554**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Other long-term employee benefits (continued)

In accordance with the transitional provisions for the amendments to IAS 19 employee benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting period.

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

2015	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	192 800	(171 600)
Effect on defined benefit obligation	4 400	(5 900)
	197 200	**(177 500)**

2014	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	172 398	(152 506)
Effect on defined benefit obligation	928 953	(832 228)
	1 101 351	**(984 734)**

The municipality expects to make a contribution of R2 434 719 (2014: R2 178 800) to the defined benefit plans during the next financial year.

23. Service charges

Sale of water	192 674 258	184 218 085
Sewerage and sanitation charges	102 345 828	93 777 019
	295 020 086	**277 995 104**

24. Rental of facilities and equipment

Premises		
Rental of premises	382 206	467 651
Facilities and equipment		
Rental of facilities	2 048 059	1 726 310
Premises	382 206	467 651
Garages and parking	-	-
Facilities and equipment	2 048 059	1 726 310
	2 430 265	**2 193 961**

25. Other revenue

Revaluation reserve / Assets acquired at no cost	810 785	2 688 032
Administration fees	83 100	54 326
Building plan fees	113 946	73 148
Connection fees	1 977 049	1 630 010
Other revenue	1 635 787	337 574
Atmospheric emissions licenses	163 600	320 440
Reconnection fees	595 481	562 230
Tender deposits	128 829	194 387
Water rates certificates	836 191	231 646
Developers fees	8 636 202	2 298 475
	14 980 970	**8 390 268**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Interest received

Interest revenue		
Short-term investments	6 323 233	-
Bank	9 182 726	10 628 189
Interest charged on trade and other receivables	3 490 009	3 192 401
	18 995 968	**13 820 590**
	-	-
	18 995 968	13 820 590

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies

Operating grants

National equitable share	264 864 935	236 862 268
Levies replacement	54 816 000	50 290 000
Other grants	1 936 728	1 022 031
	321 617 663	**288 174 299**

Capital grants

National: MIG grant	265 189 000	275 304 000
National: FMG grant	1 251 468	1 233 819
National: DEAT grant	-	164 702
National: Local Government grant	56 295 629	7 452 346
National: DWAF grant	47 545 597	55 740 460
Provincial: Department of Cooperative Governance and Traditional Affairs grant	25 998 847	29 411 030
Provincial: Department of Public Works grant	1 041 576	883 496
Provincial: Human Sattlement and Rural Development grant	-	4 000 000
Provincial: Department of Transport grant	2 944 356	1 765 019
Development Bank of Southern Africa	523 957	385 855
	400 790 430	**376 340 727**
	321 617 663	288 174 299
	400 790 430	376 340 727
	722 408 093	**664 515 026**

Equitable Share

Current-year receipts	319 680 935	287 152 268
Conditions met transferred to revenue: operating expenses	(319 680 935)	(287 152 268)
	-	-

In terms of the Constitution, this unconditional grant is used primarily to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant.

National: Municipal Infrastructure Grant (MIG)

Current-year receipts	265 189 000	275 304 000
Conditions met - transferred to revenue: operating expenses	(5 029 963)	(59 905 245)
Conditions met - transferred to revenue: capital expenses	(260 159 037)	(215 398 755)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). No funds were withheld.

National: Finance Management Grant (FMG)

Balance unspent at beginning of year	1 468	(14 713)
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue: operating expenses	(1 251 468)	(1 233 819)
	-	**1 468**

Figures in Rand	2015	2014

27. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

National: Economic Affairs and Tourism Grant (DEAT)

	2015	2014
Balance unspent at beginning of year	430 396	595 098
Conditions met - transferred to revenue: operating expenses	-	(164 702)
	430 396	**430 396**

Conditions still to be met - remain liabilities (see note 19).

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment".

National: Local Government Grant

	2015	2014
Balance unspent at beginning of year	17 262 272	11 556 420
Current-year receipts	33 433 000	22 147 000
Conditions met - transferred to revenue: operating expenses	(727 002)	-
Conditions met - transferred to revenue: capital expenses	(42 288 841)	(6 468 159)
Correction of prior year error - Conditions met - transferred to revenue: operating expenses	-	(7 568 286)
Transfers withheld during the year	(2 473 431)	(2 404 703)
	5 205 998	**17 262 272**

Conditions still to be met - remain liabilities (see note 19).

Various grants are paid by National Local Government to help implement the IDP, PMS, Sports Stadium and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA),2000.

National: Department of Water Affairs and Forestry Grant (DWAF)

	2015	2014
Balance unspent at beginning of year	1 973 316	7 609 474
Current-year receipts	57 450 838	50 104 303
Conditions met - transferred to revenue: operating expenses	(47 545 598)	(55 740 461)
	11 878 556	**1 973 316**

Conditions still to be met - remain liabilities (see note 19).

DWAF grants are aimed at supplementing municipal budgets to assist with the construction of water delivery infrastructure, execution of water service delivery and the development of an Asset Management Plan.

Provincial: Department of Cooperative Governance and Traditional Affairs Grant

	2015	2014
Balance unspent at beginning of year	25 076 273	25 538 853
Current-year receipts	4 310 000	21 931 000
Conditions met - transferred to revenue: operating expenses	(4 001 950)	(2 958 702)
Conditions met - transferred to revenue: capital expenses	(22 034 160)	(19 434 878)
	3 350 163	**25 076 273**

Conditions still to be met - remain liabilities (see note 19).

Figures in Rand	2015	2014

27. Government grants and subsidies (continued)

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. They are aimed at supplementing municipal budgets to assist with the assessment of water service delivery mechanisms, water delivery planning and water services technical support. Funding was also received to assist with the construction of the Ugu Sports and Leisure Centre.

Provincial: Department of Public Works Grant

Balance unspent at beginning of year	116 505	431 565
Current-year receipts	1 368 000	1 000 000
Conditions met - transferred to revenue: operating expenses	(1 041 576)	(883 495)
Conditions met - transferred to revenue: capital expenses	-	(431 565)
Transfers withheld during the year	(116 505)	-
	326 424	**116 505**

Conditions still to be met - remain liabilities (see note 19).

This is an incentive grant from Public Works for the promotion of labour intensive projects within the District. No funds were withheld.

Department of Human Settlement and Public Works

Current-year receipts	-	4 000 000
Conditions met - transferred to revenue: operating expenses	-	(4 000 000)
	-	**-**

Provincial: Department of Transport Grant

Balance unspent at beginning of year	837 356	513 375
Current-year receipts	2 430 000	2 089 000
Conditions met - transferred to revenue: operating expenses	(2 944 356)	(1 765 019)
Transfers withheld during the year	(323 000)	-
	-	**837 356**

Conditions still to be met - remain liabilities (see note 19).

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000. No funds were transferred to the municipality for the year under review.

Development Bank of Southern Africa

Balance unspent at beginning of year	562 624	1 391 580
Conditions met - transferred to revenue: operating expenses	(524 042)	(709 256)
Conditions met - transferred to revenue: capital expenses	-	(119 700)
	38 582	**562 624**

Conditions still to be met - remain liabilities (see note 19).

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment.

Other Government: Industrial Development Corporation

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies (continued)

Balance unspent at beginning of year	45 020	45 020
Conditions met - transferred to revenue: operating expenses	(45 020)	-
	-	**45 020**

Conditions still to be met - remain liabilities (see note 19).

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

Other Sponsors: NPC

Balance unspent at beginning of year	555 497	555 497
Conditions met - transferred to revenue: operating expenses	(426 448)	-
	129 049	**555 497**

Other Sponsors: National Lottery

Balance unspent at beginning of year	1 472 362	2 494 392
Conditions met - transferred to revenue: operating expenses	(1 465 712)	(1 022 030)
	6 650	**1 472 362**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. Municipal grants

29. Employee related costs

Basic	152 331 712	138 814 209
Commissions	7 810 364	6 826 209
Bonus	12 816 436	11 174 386
Medical aid - company contributions	11 735 441	10 259 222
UIF	1 333 376	1 257 045
SDL	2 124 027	1 914 542
Leave pay provision charge	3 430 713	3 205 316
Contribution long service benefits	3 029 263	2 298 226
Other short term costs	66 586	62 725
Defined contribution plans	30 042 517	26 941 830
Travel, motor car, accommodation, subsistence and other allowances	1 479 930	909 439
Overtime payments	23 711 547	20 810 648
Long-service awards	2 309 605	3 249 806
Acting allowances	1 692 004	1 735 626
Car allowance	12 229 539	11 782 464
Housing benefits and allowances	1 278 248	1 045 326
	267 421 308	**242 287 019**

Remuneration of municipal manager

Annual Remuneration	915 394	911 446
Car, entertainment, housing, subsistence and other allowances	292 746	227 778
Performance Bonuses	122 029	-
Contributions to UIF, Medical and Pension Funds	226 747	207 088
Backpay	36 376	-
	1 593 292	**1 346 312**

Remuneration of chief finance officer

Annual Remuneration	571 446	513 083
Car, entertainment, housing, subsistence and other allowances	462 926	453 050
Performance Bonuses	70 578	-
Contributions to UIF, Medical and Pension Funds	44 812	-
Backpay	25 206	-
	1 174 968	**966 133**

Corporate and human resources (corporate services)

Annual Remuneration	488 530	570 892
Car, entertainment, housing, subsistence and other allowances	583 136	520 822
Performance Bonuses	80 660	-
Contributions to UIF, Medical and Pension Funds	24 602	12 199
Backpay	25 206	-
	1 202 134	**1 103 913**

Remuneration of general manager: Infrastructure and Economic Development

Annual Remuneration	782 655	760 636
Car, entertainment, housing, subsistence and other allowances	307 040	276 077
Performance Bonuses	60 495	-
Contributions to UIF, Medical and Pension Funds	12 946	11 580
Backpay	25 206	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

29. Employee related costs (continued)

	1 188 342	**1 048 293**

Remuneration of Senior Manager: Strategy and Shared Services

Annual Remuneration	-	592 205
Car, entertainment, housing, subsistence and other allowances	-	193 257
Contributions to UIF, Medical and Pension Funds	-	9 258
	-	**794 720**

He resigned on 30 June 2014 and this was converted to senior manager permanent.

Remuneration of general manager: Water Services

Annual Remuneration	549 045	464 872
Car, entertainment, housing, subsistence and other allowances	461 140	174 405
Performance Bonuses	27 985	-
Contributions to UIF, Medical and Pension Funds	113 990	16 129
Backpay	27 985	-
	1 180 145	**655 406**

Included in employee costs are the following amounts paid to s57 employees of the company:

Remuneration of chief executive officer (Ugu South Coast Tourism) (Outgoing)

Remuneration of chief executive officer (Ugu South Coast Tourism) (New)

Remuneration of general manager: Finance and Human Resources (Ugu South Coast Tourism)

Remuneration of general manager: Development (Ugu South Coast Tourism)

Remuneration of chief executive officer (South Coast Development Agency)

Remuneration of general manager: Finance and Human Resources (South Coast Development Agency)

Remuneration of general manager: Projects (South Coast Development Agency)

30. Remuneration of councillors

Mayor	343 056	343 056
Deputy mayor	261 568	261 568
Executive committee members	1 848 352	1 508 267
Speaker	258 918	258 918
Councillors / board members	1 393 608	1 175 230
Company contributions to UIF, medical, and pension funds	505 583	479 129
Other allowances (Cellphone, housing, transport etc.)	4 078 836	3 757 912
	8 689 921	**7 784 080**

30. Remuneration of councillors (continued)

In-kind benefits

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official council transportation when engaged in official duties.

The following additional personal support is provided by the municipality:

(i)The Mayor has one full-time bodyguard and one full-time driver.

(ii)The Deputy Mayor has one full-time aide, fullfilling various personal duties.

(iii) The Speaker has one full-time driver.

31. Depreciation and amortisation

Property, plant and equipment	168 432 526	169 333 273
Intangible assets	3 145 870	3 073 264
	171 578 396	**172 406 537**

The prior year comparative balances have been accordingly restated retrospectively. (See note: 46)

32. Impairment of assets

Impairments		
Property, plant and equipment	76 295 248	2 796 989
Trade and other receivables	85 629 566	12 743 170
	161 924 814	**15 540 159**
	161 924 814	15 540 159
	-	-

33. Finance costs

Non-current borrowings	12 247 515	15 155 903
Other interest paid	565 192	661 744
	12 812 707	**15 817 647**

34. Debt impairment

35. Bulk purchases

Water	52 626 127	46 954 224

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Bulk water is purchased from the Umgeni Water Board and eThekwini Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

36. Contracted services

Other contractors	-	3 578
Cleaning services	1 956 632	1 868 658
Professional services	-	-
- Chemistry	3 726 602	4 044 040
- Dam safety	353 654	15 500
- Engineering services	1 066 057	1 575 458
- Other professional services	2 055 553	1 820 589
Security services	-	-
-Alarm monitoring	4 039	4 470
- Cash banking	148 999	147 097
- General security	10 436 343	10 100 010
Pest control	79 427	-
	19 827 306	**19 579 400**

37. Grants and subsidies paid

Low income subsidy	22 251 338	19 345 290
Other grants and subsidy	54 195	253 000
Other	23 216 449	46 845 873
	45 521 982	**66 444 163**
Grants paid to ME's	-	-
Other subsidies	45 521 982	66 444 163

Conditional grants paid is in respect of projects undertaken by municipalities within the municipality’s area of jurisdiction and funded by Ugu District Municipality.

Community projects consist primarily of ventilated pit latrines constructed for communities that have no access to sanitation services. This project is accelerated to deal swiftly with the municipality’s sanitation backlog programme as funded through the Municipal Infrastructure Grant.

The low income subsidy is in respect of providing basic service levels to indigent households.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

38. General expenses

Advertising	126 222	173 342
Auditors remuneration	2 384 650	2 111 074
Accomodation serminars and travelling	469 675	368 387
Bank charges	560 932	540 887
Cleaning	377 323	259 421
Commission paid	1 223 803	1 147 363
Consultant information technology support	-	90 343
Consulting and professional fees	761 984	3 250 238
Consumables	90 438	152 659
Electricity	49 382 977	46 244 979
Events and programmes	1 004 459	980 439
Fuel and oil	11 601 355	10 198 419
Gardening services	1 144 161	758 642
Insurance	1 487 131	1 542 165
Kwanaloga subscriptions	1 847 144	1 864 124
Loose / small tools	555 375	297 333
Licences	5 140 113	3 767 607
Marketing	28 013	58 066
Magazines, books and periodicals	148	745
Materials	3 663 500	5 820 636
Other general expenses	1 584 629	1 880 701
Postage and courier	1 639 821	1 622 345
Printing and stationery	1 074 418	681 767
Public participation	1 162 244	1 902 025
Property transfers	907 800	902 324
Research and development costs	32 800	164 541
Refreshments	167 741	135 585
Sports and recreation	1 351 268	-
Subscriptions and membership fees	27 703	2 496
Telephone and fax	2 779 683	2 772 598
Transport and freight	12 545 138	9 853 172
Training	2 608 989	1 624 658
Uniforms and protective clothing	861 310	691 679
Vehicle tracking	89 269	1 035 830
Workmen's compensation insurance	21 250	1 324 610
	108 703 466	**104 221 200**

39. Fair value adjustments

Investment property (Fair value model)	(4 200 000)	(10 400 000)

Figures in Rand	2015	2014

40. Cash generated from operations

	2015	2014
Surplus	146 975 243	245 034 392
Adjustments for:		
Depreciation and amortisation	171 578 396	172 406 536
(Loss) gain on sale of assets and liabilities	(883 418)	1 334 421
Loss on disposal of intangible asset	-	31 068
Assets acquired at no cost	(810 785)	-
Fair value adjustments	4 200 000	10 400 000
Impairment deficit	161 924 814	15 540 159
Movements in operating lease assets and accruals	19 692	12 316
Movements in retirement benefit assets and liabilities	1 725 968	(7 851 505)
Movements in current provisions	3 362 106	(654 709)
Movements in Non-current provisions	2 157 948	2 635 362
Changes in working capital:		
Inventories	(6 357 053)	(1 130 627)
Receivables from exchange transactions	(50 229 951)	(19 041 089)
Other receivables from non-exchange transactions	(37 058 794)	(4 816 720)
Payables from exchange transactions	43 325 141	(9 112 084)
VAT	6 924 796	11 489 038
Unspent conditional grants and receipts	(26 967 272)	(2 442 865)
Consumer deposits	309 343	345 516
	420 196 174	**414 179 209**

41. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

In accordance with GRAP 104.13 for the financial assets for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Long-term receivables	-	-	-
- Relocation loans	-	2 661	2 661
- Sundry loans	-	305 361	305 361
Receivables from Exchange Transactions	-	-	-
Sewerage	-	50 183 184	50 183 184
Other trade receivables	-	1 734 518	1 734 518
Water	-	110 186 253	110 186 253
Water rates	-	18 583 628	18 583 628
Receivables from Non-exchange Transactions	-	-	-
Payments made in advance	-	4 353 985	4 353 985
Government subsidy claims	-	11 562 424	11 562 424
Insurance claims	-	122 367	122 367
Municipal entities	-	50 979	50 979
Sundry deposits	-	808 432	808 432
Sundry debtors	-	342 497 865	342 497 865
Cash and Cash Equivalents	-	-	-
Call deposits	36 344 664	-	36 344 664
Notice deposits	-	185 734 892	185 734 892
Bank balances	15 855 230	-	15 855 230
Cash floats and advances	4 910	-	4 910
Current-portion of Long-term Receivables	-	-	-
Relocation loans	-	9 567	9 567
Sundry loans	-	3 600	3 600

. Financial instruments disclosure (continued)

	52 204 804	**726 139 716**	**778 344 520**

Financial liabilities

In accordance with GRAP 104.13 for the financial liabilities for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Annuity Loans	-	163 440 870	163 440 870
Trade and other payables from exchange transactions	-	156 441 249	156 441 249
Finance lease liability	-	3 063 785	3 063 785
Bank overdraft	5 017 457	-	5 017 457
	5 017 457	**322 945 904**	**327 963 361**

2014

Financial assets

In accordance with GRAP 104.13 for the financial assets for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Relocation costs	-	7 111	7 111
Sundry loans	-	293	293
Sewerage	-	41 051 351	41 051 351
Other trade receivables	-	1 737 876	1 737 876
Water	-	76 727 859	76 727 859
Water rates	-	12 190 842	12 190 842
Payments made in advance	-	1 920 995	1 920 995
Government subsidy claims	-	236 950	236 950
Insurance claims	-	122 367	122 367
Municipal entities	-	66 846	66 846
Sundry deposits	-	893 075	893 075
Sundry debtors	-	549 836	549 836
Call deposits	7 535 227	-	7 535 227
Notice deposits	-	757 514	757 514
Bank balances	152 373 720	-	152 373 720
Cash floats and advances	4 910	-	4 910
Relocation loans	-	28 442	28 442
Sundry loans	-	3 600	3 600
	159 913 857	**136 294 957**	**296 208 814**

Financial liabilities

In accordance with GRAP 104.13 for the financial liabilities for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Annuity loans	-	180 426 363	180 426 363
Finance lease liability	-	3 063 785	3 063 785
Payables from exchange transactions	-	133 948 939	133 948 939
Finance lease liability	-	3 361 417	3 361 417
Bank overdraft	3 343 474	-	3 343 474
	3 343 474	**320 800 504**	**324 143 978**

Fair value

. **Financial instruments disclosure (continued)**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

Cash and short-term investments:

The carrying amount approximates the fair value because of the short maturity of these instruments.

Long-term investments

The fair value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other financial assets and liabilities

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term liabilities

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2015, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year

Assumptions used in determining fair value of financial assets and financial liabilities

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

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument

. Financial instruments disclosure (continued)

Capital risk management

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

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in note 17, bank, cash and cash equivalents and equity, comprising accumulated Surplus as disclosed in Note 3 and the statement of changes in net assets.

Gearing ratio

In terms of the municipality’s five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.

Figures in Rand	2015	2014

. **Financial instruments disclosure (continued)**

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

Debt	166 510 655	186 994 645
Cash and cash equivalents	(232 922 238)	(157 327 897)
Net debt/(asset)	**(66 411 583)**	**29 666 748**
Equity	4 170 906 764	3 961 485 248
Net debt to equity ratio	- %	0,76 %

Debt is defined as long-term and short-term liabilities, as detailed in Note 17.

Equity includes all funds and reserves of the municipality, disclosed as net assets in the statement of financial performance and net debt as described above.

Financial risk management objectives

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

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

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

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

Further quantitative disclosures are included throughout these annual financial statements.

Significant risks

It is the policy of the municipality to disclose information that enables the user of its annual financial

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in financial instruments:
- Credit risk;
- Liquidity risk; and
- Market risk.

Risks and exposures are disclosed as follows:

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

. **Financial instruments disclosure (continued)**

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity risk

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

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 49.8 and 49.9 to the annual financial statements.

Ultimate responsibility for liquidity risk management rests with the council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 42 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

30 June 2015	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	185 715 629	-	-	-	-	185 715 629
Variable interest rate instruments	18 915 505	-	-	-	-	18 915 505
Fixed interest rate instruments	3 063 785	-	-	-	-	3 063 785
	207 694 919	**-**	**-**	**-**	**-**	**207 694 919**

30 June 2014	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	140 377 050	-	-	-	-	140 377 050
Variable interest rate instruments	3 281 879	-	-	-	-	3 281 879
Fixed interest rate instruments	13 014 267	13 789 267	27 578 533	88 053 182	176 338 319	318 773 568
	156 673 196	**13 789 267**	**27 578 533**	**88 053 182**	**176 338 319**	**462 432 497**

Municipality

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

30 June 2015	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	154 045 729	-	-	-	-	154 045 729

Notes to the Annual Financial Statements

. Financial instruments disclosure (continued)

Variable interest rate instruments	15 855 231	-	-	-	-	15 855 231
Fixed interest rate instruments	732 438	-	-	-	-	732 438
	170 633 398	**-**	**-**	**-**	**-**	**170 633 398**

30 June 2014	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	224 435 449	-	-	-	-	224 435 449
Variable interest rate instruments	160 666 976	-	-	-	-	160 666 976
Fixed interest rate instruments	732 428	-	-	-	-	732 428
	385 834 853	**-**	**-**	**-**	**-**	**385 834 853**

30 June 2015	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	224 435 449	-	-	-	-	224 435 449
Variable interest rate instruments	160 666 976	-	-	-	-	160 666 976
Fixed interest rate instruments	732 428	-	-	-	-	732 428
	385 834 853	**-**	**-**	**-**	**-**	**385 834 853**

Heading	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	141 538 885	-	-	-	-	141 538 885
Variable interest rate instruments	71 038 800	-	-	-	-	71 038 800
Fixed interest rate instruments	708 687	-	-	-	-	708 687
	213 286 372	**-**	**-**	**-**	**-**	**213 286 372**

Municipality

The municipality has access to financing facilities, the total unused amount which is R9,268 million at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio, within 20-25% limits increasing it to 25%. This will be achieved through the issue of new debt and the increased use of secured bank loan facilities.

Effective interest and repricing analysis

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

30 June 2015	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	185 734 892	-	-	-	-	185 734 892
Call deposits	36 344 664	-	-	-	-	36 344 664
Bank balances and cash	10 842 683	-	-	-	-	10 842 683
Total variable rate instruments	**47 187 347**	**-**	**-**	**-**	**-**	**47 187 347**

30 June 2014	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	708 687	-	-	-	-	708 687
Call deposits	8 292 741	-	-	-	-	8 292 741

Notes to the Annual Financial Statements

Figures in Rand						2015	2014

. Financial instruments disclosure (continued)

Bank balances and cash	152 374 235	-	-	-	-	152 374 235
	160 666 976	**-**	**-**	**-**	**-**	**160 666 976**

Credit risk

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

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

Investments/ bank, cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

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

In the case of receivables whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of council's credit control and debt collection policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

. **Financial instruments disclosure (continued)**

- There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term receivables and other debtors are individually evaluated annually at statement of financial position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists, based on the payment history of the parties.

Counterparty and Location		
Ukusa River Estate Development	1 273 600	656 512
GJ Crookes Hospital	-	582 323
Ithala Development Finance Corporation	734 982	563 852
San Lameer Estate Management	-	498 633
SA Botlink (Pty) Ltd	-	436 951
Smithchem (Pty) Ltd	978 989	-
Blue Marlin Hotel	950 284	-
Lourens De Jager Coetzer	680 477	-
	4 618 332	**2 738 271**

Except as detailed in the following table, the carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Investments	200	100
Long-term receivables	321 188	39 446
Consumer debtors	264 231 971	225 155 966
Other debtors	1 204 252	9 769 194
Bank, cash and cash equivalents	259 074 427	160 671 371
	524 832 038	**395 636 077**

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Consumer debtors		
Household	77,00 %	75,00 %
Industrial/Commercial	18,00 %	17,00 %
National and Provincial Government	4,00 %	5,00 %
Other debtors	1,00 %	3,00 %
	100,00 %	**100,00 %**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

. Financial instruments disclosure (continued)

Bank and cash balances		
ABSA Bank	47 164 171	156 585 295
First National Bank of SA Limited	45 018 266	17 465
Nedbank	30 000 000	-
Investec Bank	65 000 000	-
Ithala Bank	734 892	720 227
Standard Bank	45 000 000	-
Cash equivalents	4 910	4 910
	232 922 239	**157 327 897**

42. Commitments

Authorised capital expenditure

Approve and contracted for:-		
• Property, plant and equipment	474 702 180	733 477 962
• Other	7 308 871	21 248 606
	482 011 051	**754 726 568**

Approved but not yet contracted for:-		
• Property, plant and equipment	60 641 465	27 066 730
• Other	6 050 023	-
	66 691 488	**27 066 730**

Total capital commitments		
Already contracted for but not provided for	482 011 051	754 726 568
Not yet contracted for and authorised by accounting officer	66 691 488	27 066 730
	548 702 539	**781 793 298**

This expenditure will be financed from:		
Government grants	535 343 645	688 604 111
Own resources	13 358 894	93 189 187
	548 702 539	**781 793 298**

Authorised operational expenditure

Total commitments

Total commitments		
Authorised capital expenditure	548 702 539	781 793 298

The amount of commitments that was disclosed in the audited 2013/14 financial statement has been remeasured. Therefore the amount that was previously disclosed in has been replaced with a recalculated amount.

Figures in Rand	2015	2014

43. Contingent assets and contingent liabilities

Guarantees:

i) Hibiscus Coast Municipality: The Municipality issued a bank guarantee in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the Municipality.	10 000	10 000
(ii) Eskom: The Municipality issued a bank guarantee in favour of Eskom to cover deposits on the electricity accounts of the Municipality.	2 852 000	2 852 000
(iii)South African Post office:The municipality issued a bank guarantee in favour of South African Post office.	200 000	200 000
	3 062 000	**3 062 000**

Court proceedings

(i) Dispute on Expenditure Claimed: Council was involved in a dispute with Sublime Marketing (the applicant), where the applicant is claiming an amount of R227 142, with interest estimated at R192 432, in respect of functions performed on behalf of Ezinqoleni Municipality / Horseshoe Farm. The Municipality entered an Appearance to Defend the matter and was awaiting the enrollment of the matter for trial. The Municipality has since been advised that the Plaintiff has abandoned the Claim and their attorneys have closed their file. Municipal attorney has also been instructed to close file on this matter.	-	419 574
(ii) Alleged Breach of Contract: Council has been involved in a court case with Thumbprint Events Management, where it is alleged that the Municipality has unilaterally repudiated a contract. Applicant is claiming unpaid invoices and damages in terms of what would have been due to them had the contract not been repudiated by the Municipality. The Municipality is defending this action and awaits a court date. The total claim is valued at R875 258. 46 plus 30% of envisaged gate takings for two events and 25% of sale of floor space for two events (excluding VAT). The Municipality is currently negotiating a settlement with the Applicant and the matter is expected to be finalised by 30 September 2015.	875 248	875 248
(iii) Dispute on Damage Caused to Farmland: The Municipality has been issued with a Court Order instructing it to immediately cease the nuisance caused on Mr Meuller's property at Lot 2007 Uvongo through the discharge of final sewer effluent into a tributary of the Unvongo River on his land, thereby causing a ravine on his land and rendering it unfarmable to him. He is further claiming for damages caused through non-useability of his land, damages for loss of profit as a result of the damage caused to his property and the subdivision and transfer of the damaged land to the Municipality. The Municipality hasinstructed Engineers implemneting the project to make an offer to purchase to the Applicant for damaged land. The Municipality awaits the response of the Plaintiff.	100 000	100 000
(iv) Cession Agreement: JZZ Engineering is claiming from the municipality as per a prescribed claim against a cession agreement entered into. The possible liability amounts to R153 900, plus costs. The Plaintiff has formally withdrawn from the matter. The Municipality is pursuing costs incurred from Plaintiff.	-	153 900
(v) Cession Agreement: Premier Attraction is claiming from the municipality for allegedly not honouring a cession agreement in their favour to the value of R122 682.24 plus costs. The Municipality is awaiting the matter to be set down for a Trial date in the High Court.	122 682	122 682
(vi) Cession Agreement: Premier Attraction is claiming from the municipality for allegedly not honouring a cession agreement in their favour to the value of R122 682.24 plus costs. The Municipality is awaiting the matter to be set down for a Trial date in the High Court.	6 659 282	6 659 282
(vii) Dispute regarding Encroachment on Property: The Municipality is enjoined with Umzumbe Municipality in litigation with MP & RV Coco regarding alleged illegal encroachment by the Municipalities. The applicants are wanting rehabilitation of their land. Costs are not yet determinable.	-	1

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Contingent assets and contingent liabilities (continued)

(viii) The parent municipality of the entity mandated consultants to assist in regularising their Value Added Taxation affairs. Upon conclusion of the said assignment, an ancillary finding was communicated to the parent, by the consultants, in that the grant funding charged out by the entity should indeed be Vatable. The entity has never levied Value Added Taxation on grants. The directors do not agree with the opinion of the consultants and have initiated steps to obtain a direct ruling from the South African Revenue Services. In any case, there is no loss to the fiscus as any possible effects are inter-governmental with all output directly corresponding with equal and opposite inputs on the governmental partner. Furthermore, the entity has been audited directly and specifically by the South African Revenue Services on it`s grants and no findings were made.	-	1
	7 757 212	**8 330 688**

Contingent assets

i) Legal claim against Ingqondo and Nzwakele Construction for alleged fraud and undue enrichment from contracts awarded by the municipality.	-	4 714 038

44. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
100% Owned Company (Ugu District Municipality Entity)	Ugu South Coast Tourism (Pty) Ltd
100% Owned Company (Ugu District Municipality Entity)	South Coast Development Agency
Henderson (Ugu Councillor)	Barry Botha & Breytenbach Inc

The municipality procured goods and/or services from the following companies, which are considered to be related parties:

Related party transactions

Purchases from (sales to) related parties		
Ugu South Coast Tourism (Pty) Ltd	11 043 743	10 517 850
South Coast Development Agency NPC	5 000 000	-
Barry Botha & Breytenbach Inc	105 550	74 200
	16 149 293	**10 592 050**

The transactions were concluded in full compliance with the municipality’s Supply Chain Management Policy and the transactions are considered to be at arm’s length.

45. Prior period errors

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

45. Prior period errors (continued)

Post Employee Benefits

Reported Amount	-	23 599 788
Correction of error	-	(10 075 651)
Restated Closing Balance	**-**	**13 524 137**

The prior year error relates to Post Employment Benefits for Actuarial Valuation of the Post-employment Medical subsidy liability. Misstatement was made by the Actuaries in the calculation of the Post-employment benefits.

Receivables from non-exchange transactions

Reported Amount	-	3 705 428
Correction of error	-	9 740 266
Restated Closing Balance	**-**	**13 445 694**

The error in the receivables from non-exchange transaction is due to VAT amount that was paid over to SARS as result of misstatement in the amount of vat output in the prior years. Therefore this amount was receivable from SARS and therefore it was accounted as non-exchange receivable not a vat receivable.

Payables

Reported Amount	-	133 948 941
Correction of error	-	(27 590 750)
Restated Closing Balance	**-**	**106 358 191**

The prior year error relates to Sundry Accruals that were not accrued in the 2013/14 financial period.

Provisions

Reported Amount	-	18 934 338
Correction of error	-	(2 534 859)
Restated Closing Balance	**-**	**16 399 479**

The leave pay provision was not calculated correctly and that was audit finding in 2013/14 financial period. The necessary adjustments were made to leave pay provision retrospectively.

Value Added Tax

Reported Amount	-	23 284 043
Correction of error	-	(17 214 308)
Restated Closing Balance	**-**	**6 069 735**

The vat review was done by KPMG and number of missatements were noted in the prior period where vat on the manual adjustments were incorrectly calculated. It was also noted that some of the vat input was claimed on invoices from non-vat vendors. All these missstatements were corrected retrospectively and therefore a prior period error adjustments were made.

Receivables from exchange transactions

Reported Amount	-	132 411 277
Correction of error	-	(1 953 645)
Restated Closing Balance	**-**	**130 457 632**

Correction error was due to adjustment of consumer debtors not billed in the prior year.

Property, Plant and Equipment	Year	Land & Buildings	Movables	Community	Infrastructure	Total
Reported Amount	2013/14	475 943 385	40 813 135	96 500 913	1 632 128 938	2 245 386 371
Correction of error	2013/14	(332 346 727)	(2 278 149)	482 523	1 619 355 812	1 285 213 459

Notes to the Annual Financial Statements

Figures in Rand				2015	2014
45. Prior period errors (continued)					
Restated Closing Balance	**143 596 658**	**38 534 986**	**96 983 436**	**3 251 484 750**	**3 530 599 830**

The correction in the prior year error on Land and Buildings, due to properties in the FAR (Fixed Asset Register) that was never owned by the municipality. Infrastructure restatement is due to pipeline that was never included in the financial records and valuation of infrastructure assets.

Income	Reported	Correction of error	Restated
Other revenue	9 066 792	(676 523)	8 390 269

Expenditure	Reported	Correction of error	Restated
Grants Expenditure	109 761 913	(240 909)	109 521 004
General expenses (Salga Expenses)	4 157 174	(2 293 050)	1 864 124
General expenses (Insurance)	2 776 679	(1 234 514)	1 542 165
Depreciation and amortisation	66 668 666	105 737 870	172 406 536
	183 364 432	**101 969 397**	**285 333 829**

Statement of financial position		
Property, plant and equipment	-	1 285 213 459
Receivables from non-exchange transactions	-	9 740 266
Receivables from exchange transactions	-	(1 953 645)
Value Added Tax	-	(17 214 308)
Provisions	-	2 534 859
Trade payables	-	27 590 750
Post employee benefit	-	10 075 651
	-	**1 315 987 032**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

45. Prior period errors (continued)

Statement of Financial Performance

	2015	2014
Other revenue	-	676 523
Grants expenditure	-	(240 909)
General Expenses (Salga Expenses)	-	(2 293 050)
General expenses (Insurance)	-	(1 234 514)
Depreciation and amortisation	-	105 737 870
	-	**102 645 920**

The following balances has been reclassified in the Statement of Financial Performance. This balances have been reclassified because in the previous period it has been either reported in the incorrect Financial Statement Line Item (FSLI) or it has been considered to be more appropriate to achieve fair presentation.

All the balances that has been reclassified together with the corresponding figures for the 2013/14 financial period. There is no effect on the profits as a results of reclassification.

Refer to reconciliation of balances previously reported and reclassified below:

1. Fair value adjustment of Service Charges	Amount Previously Reported	Amount Reported	Reclassified Amount
Interest Income	32 597 604	13 820 590	(18 777 014)
Service Charges	314 783 607	333 560 621	18 777 014
	347 381 211	**347 381 211**	**-**

2. Fair Value Adjustment on Investment Property	Amount Previously Reported	Amount Reported	Reclassified Amount
Impairment loss	25 940 159	15 540 159	(10 400 000)
Fair value adjustment	-	10 400 000	10 400 000
	25 940 159	**25 940 159**	**-**

3. Rentals on Operating Lease	Amount Previously Reported	Amount Reported**	Reclassified Amount
General Expenses	109 761 913	107 748 769	(2 013 144)
Lease Rentals on Operating Lease	-	2 013 144	2 013 144
	109 761 913	**109 761 913**	**-**

** The balance has been shown before taking into account all the prior period correction of error adjustments. Please refer to Income Statement correction of error above.

46. Comparative figures

The comparative figures were restated as a result of the effect of Prior Period Errors (see Note 44).

47. Going concern

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

48. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to the reporting date.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

49. Unauthorised expenditure

Opening balance	36 582 590	10 826 295
Unauthorised expenditure for the year	273 794 130	25 756 295
	310 376 720	**36 582 590**

Incident

Budgeted amounts exceeded:

Disciplinary steps/ criminal proceedings: To be condoned by Executive Committee

MIG projects	-	25 756 295
Personnel (Employee Costs)	8 200 248	-
Depreciation and amortisation	107 555 977	-
Impairment loss	140 905 659	-
Repairs and maintenance	12 932 246	-
Fair value adjustment	4 200 000	-
	273 794 130	**25 756 295**

The amount of unauthorised expenditure has been retated as result of misstatement in the prior period. It was note that the amount of bulk purchases R 3 493 027 was never an unauthorised expenditure as per inspection of the prior year audited annual financial statements. Therefore this balance has been restated in the current financial period.

50. Fruitless and wasteful expenditure

Opening balance	2 690 035	2 028 291
Fruitless and wasteful expenditure	522 368	661 744
	3 212 403	**2 690 035**

Fruitless and wasteful expenditure as results of the following:

Interest on late payments – R522 368 (2014: R661 744).
Disciplinary steps/ criminal proceedings:

A report will be adopted by the executive committee, condoning the "fruitless and wasteful expenditure" for the current year.

Disciplinary action is in progress for the prior year's fruitless and wasteful expenditure

51. Irregular expenditure

Opening balance	242 919 032	65 539 301
Add: Irregular Expenditure - current year	40 350 455	182 093 769
Less: Amounts written-off	(131 380 727)	-
Less: Amounts recoverable (not written-off)	-	(4 714 038)
	151 888 760	**242 919 032**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

51. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Expenditure contrary to the provisions of Regulation 44 of the Municipal Supply Chain Management Regulations	A report will be adopted by the Executive Committee, writting-off the "Irregular Expenditure".	10 091 951
Expenditure according to the provisions of Regulation 36 of the Municipal Supply Chain Management Regulations	A report will be adopted by the Executive Committee, writting-off the "Irregular Expenditure".	79 976
Expenditure contrary to the provisions of Regulation 28(1)(c) of the Municipal Supply Chain Management Regulations.		30 178 528
		40 350 455

Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which wrote-off the various cases.

Note: S36 deviations have been disclosed separately from the Irregular expenditure note. Refer to note 56.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

51. Irregular expenditure (continued)

Department				Controlling Entity
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	16 471
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	7 174
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	12 125
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	18 636
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	9 910
Corporate Services	15 February 2015	NRP Agencies cc	Extension of a contract	15 660
				-
				-
				79 976

Furthermore, the municipality has made the following awards to persons in service of Government institutions contrary to the provisions of paragraphs 44 of the Municipal Supply Chain Management Regulations:

Company Name	Related Person	Municipal Capacity	Purchases for the year	Purchases for the year
African Tide Trading CC	AT Xaba	Eskom Holdings Ltd	-	362 502
Sihloniphe Business Trading Primary CO - OP LTD	NM Mkhanyawo	South African Police Service	-	2 475
Thubalam Trading	RI Dzengwa	EC: Roads & Public Works	4 246 326	9 877 508
Trentyre Pty Ltd	NP Mona	Komatiland Forests	-	136 397
Arch Actuarial Cons	C Weiss	Human Science Research Council	8 436	17 100
Business Connexion	NN Kekana	Gauteng Film Commission	453 281	41 580
Business Zone 628 Cc	R Sookdhev	KZN: Education	-	26 525
Isibonelo Civils Cc	BP Muthwa	South African Social Security Agency	-	74 015
Eaton Electric South Africa Pty Ltd	FC Campbell Jr	South African Weather Service	21 314	11 031
Macsteel Fluid Control	DD Mokgatle	State Diamond Trader	129 760	26 694
Makhayelihle Investments Pty Ltd	K Makhaye	Ethekwini Metro	-	5 836
Minolco (Pty) Ltd	KR Mthimunye	State Information Technology Agency	86 809	68 820
Mott Macdonald South Africa Pty Ltd	AM Naidu	Construction Industry Development Board	-	865 337

Notes to the Annual Financial Statements

Figures in Rand			2015	2014

51. Irregular expenditure (continued)

Musakhe Trading	NP Chiliza	KZN: Health	150 000	30 000
Nashua Communications	D Nchoba	Nat: Arts & Culture	1 063 205	99 063
Smec South Africa (Pty) Ltd	K Pillay	Passenger Rail Agency of SA	-	584 563
Waco Africa (Pty) Ltd T/A Sani	TS Setshedi	Tshwane Universitity Of Technology	1 060 372	8 593 792
Wole Trading Enterprise Cc	BG Masondo	KZN: Health	-	71 000
Gezinsila Labour & Protection Services	PA Mfeka	Transnet Tfr	674 342	-
Lamsta Suppliers And Projects	MZ Ndabankulu	EC: Rural Dev & Agrarian Reform	485 768	-
Iphiko Lempilo Supplies Pty Ltd	TZ Nong	KZN: Health	72 000	-
Illovo Sugar Ltd	M. Hankinson	Transnet Group	439 169	-
St Michaels Sands Hotel	YS. Song	Ithala Development Finance Corporation Ltd	16 600	-
Bigen Africa Services (Pty) Ltd	J. Botha	Development Bank Of Southern Africa	656 097	-
Pricewaterhousecoopers Combined Systems Pty Ltd	PJ. Mothibe	Independent Regulatory Board For Auditors	112 363	-
Consolidated African Technolog	SS. Ntsaluba	National Energy Regulator Of South Africa	141 075	-
CQS Technology Holdings	IB. Skosana	Transnet Group	275 035	-
			10 091 952	**20 894 238**

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2 038 851	2 118 324
Amount paid - current year	(2 038 851)	(2 118 324)
	-	-

No amounts were outstanding at the end of the financial year.

Audit fees

Opening balance	368 161	204 159
Current year subscription / fee	2 384 650	2 059 806
Amount paid - current year	(2 384 650)	(1 691 645)
Amount paid - previous years	(368 161)	(204 159)
	-	**368 161**

No amounts were outstanding at the end of the financial year.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

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

PAYE and UIF

Current year subscription / fee	40 340 203	35 783 740
Amount paid - current year	(40 340 203)	(35 783 740)
	-	-

No amounts were outstanding at the end of the financial year.

Pension and Medical Aid Deductions

Current year subscription / fee	56 522 612	51 160 355
Amount paid - current year	(56 522 612)	(51 160 355)
	-	-

No amounts were outstanding at the end of the financial year.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor VL Ntanza	1 138	1 219	2 357
Councillor TN Dzingwa	754	1 824	2 578
Councillor NA Madlala	116	-	116
Councillor NH Gumede	1 794	-	1 794
Councillor ST Gumede	111	779	890
Councillor SB & SP Cele	-	5 072	5 072
Councillor ST & PY Gumede	422	3 115	3 537
Councillor SM Mohamed	819	-	819
	5 154	**12 009**	**17 163**

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor ST Gumede	106	339	445
Councillor TN Dzingwa	1 623	726	2 349
Councillor VL Ntanza	9 595	4 884	14 479
Councillor IM Mavundla	97	-	97
Councillor NH Gumede	2 969	7 246	10 215
Councillor MA & ZP Chiliza	180	283	463
Councillor SP & PY Gumede	2 169	565	2 734
Councillor Y Nair	2 889	-	2 889
	19 628	**14 043**	**33 671**

Subsequent to year end the following Councillors settled their accounts:

30 June 2015		Amount Settled
Councillor TN Dzingwa	-	2 578
Councillor NA Madlala	-	116
Councillor NH Gumede	-	1 794
Councillor ST Gumede	-	111
Councillor SB & SP Cele	-	5 072
Councillor ST & PY Gumede	-	2 000
	-	**11 671**

53. Multi-employer retirement benefit information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors have the option to belong to the Pension Fund for Municipal Councillors.

All full-time employees belong to the KwaZulu-Natal Joint Municipal Pension Fund, which are made up of the Retirement, Superannuation and Provident Funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

53. Multi-employer retirement benefit information (continued)

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors/employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

Defined benefits schemes

Retirement fund

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R251,5 (31 March 2011: shortfall of R382,3) million, with a funding level of 82,0%(31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) was expected to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,35% is payable by the local authority.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 15,85% (Total employer contribution of 34,22%) and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 15,85% with effect from 1 July 2012 for an indefinite period of time. The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund merge with the Superannuation Fund in the near future.

Superannuation fund

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R270,0 (31 March 2011: R549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% of pensionable salaries to meet the shortfall within the 8 year period provided for in the scheme. It was expected that the deficit will be fully funded by 2020.

This surcharge is payable until 31 March 2020. It is necessary that the basic employer contribution be increased by 3,63% to 21,63% and the surcharge be increased to 9,5% and extended by a further 8 years to 31 March 2020. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for an indefinite period of time.

It is intended that the fund merge with the retirement fund in the near future.

Defined contribution schemes

Municipal councillors pension fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 31 March 2012.

The statutory valuation performed as at 30 June 2011 revealed that the market value of the fund was R1 446,8 (30 June 2010: R1 446,8) million. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the actuaries, the fund was in a sound financial condition as at 30 June 2015.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

53. Multi-employer retirement benefit information (continued)

Provident fund

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R1 293,4 (31 March 2011: R1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

54. Water losses

Water losses		
30 June Unaccounted water losses	28 211 242	20 333 005

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/ repaired as soon as they are reported.

A five-year strategic non-revenue water reduction plan was adopted and implemented by the Executive Committee in May 2008. The below-mentioned technical information was derived at as part of the implementation plan:

Volumes in ML/Year	ML/Year	ML/Year
System input volume	41 229	40 458
Billed authorised consumption	28 992	31 464
Unbilled authorised consumption	326	838
Apparent losses	3 487	1 679
Real losses	8 423	6 477
Estimated non-revenue water	12 237	8 994
	94 694	**89 910**

55. S36 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 municipal council and includes a note to the financial statements.

Deviations from the tender stupulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

55. S36 Deviation from supply chain management regulations (continued)

Department				Amount
Corporate Services	29 August 2015	Bates Delta	S36(ii)	190 000
Corporate Services	31 July 2014	Brian Thompson	S36(ii)	190 000
Corporate Services	29 August 2014	Union Motors	S36(ii)	190 000
Corporate Services	15 September 2014	Bates Delta	S36(ii)	190 000
Corporate Services	29 August 2014	Brian Thompson	S36(ii)	190 000
Water Services	15 August 2014	Royal Haskoningdhv Pty Ltd	S36(ii)	3 814 351
Treasury	15 February 2015	CQS Technology Holdings	S36(ii)	121 713
				4 886 064

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.