GREAT KEI MUNICIPALITY

EMPOWERMENT THROUGH DEVELOPMENT

Great Kei Local Municipality
(Registration number EC123)
Annual Financial Statements
for the year ended 30 June 2015

General Information

Nature of business and principal activities	Great Kei Local Municpality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998) The municipality's operations are governed by: -Municipal Finance Management Act no. 56 of 2003 -Municipal Structure Act no.117 of 1998 -Municipal Systems Act no. 32 of 2000 and various other acts and regulations.
Mayoral committee	
Mayor	Tekile N (Speaker)
Chief Whip	Ndabambi-Gavumente L
Councillors	Dyani SM
	Jacobs SM
	Mali MT
	Mevana NV
	Mgema NP
	Mzamo MK
	Moli N
	Ndoro W
	Ngabayena N
	Wood B
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mosala M L
Accounting Officer (Acting)	I. Sikhulu Nqwena
Bankers	Standard Bank Limited
Auditors	Auditor General of South Africa

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AGSA	Auditor - General South Africa

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 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 year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were 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 she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 71, which have been prepared on the going concern basis, were approved and signed by:

I. Sikhulu Nqwena
Accounting Officer (Acting)

31 August 2015

Statement of Financial Position as at 30 June 2015

	Notes	2015 R	2014 Restated* R
Assets			
Current Assets			
Inventories	3	-	25,824,610
Receivables from exchange transactions	4	3,111,733	7,828,685
Receivables from non-exchange transactions	5	1,754,419	1,782,642
VAT receivable	6	1,200,912	1,943,151
Cash and cash equivalents	7	20,855,738	609,067
		26,922,802	**37,988,155**
Non-Current Assets			
Investment property	8	74,253,400	74,253,400
Property, plant and equipment	9	242,729,589	260,481,889
Intangible assets	10	40,186	94,993
Heritage assets	11	-	8
		317,023,175	**334,830,290**
Total Assets		**343,945,977**	**372,818,445**
Liabilities			
Current Liabilities			
Other financial liabilities	12	1,353,447	2,438,771
Finance lease obligation	13	412,650	279,890
Payables from exchange transactions	14	21,991,554	19,724,698
Consumer deposits	15	80,503	80,503
Employee benefit obligation	16	747,000	678,000
Unspent conditional grants and receipts	17	20,000,064	1,955
		44,585,218	**23,203,817**
Non-Current Liabilities			
Other financial liabilities	12	2,714,906	4,085,240
Finance lease obligation	13	595,488	1,008,138
Employee benefit obligation	16	7,284,000	7,505,000
Provisions	18	3,363,855	2,891,741
		13,958,249	**15,490,119**
Total Liabilities		**58,543,467**	**38,693,936**
Net Assets		**285,402,510**	**334,124,509**
Accumulated surplus		285,402,510	334,124,509

* See Note 39

Statement of Financial Performance

	Notes	2015 R	2014 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	19	6,443,705	5,868,618
Rental of facilities and equipment	20	209,890	207,426
Licences and permits		1,379,139	1,659,929
Commissions received		19,906	301,332
Other income	21	957,241	856,380
Interest received	22	5,381,035	4,401,340
Total revenue from exchange transactions		**14,390,916**	**13,295,025**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	17,019,400	16,423,809
Transfer revenue			
Government grants & subsidies	24	53,720,994	59,780,683
Fines, Penalties and Forfeits		29,250	53,400
Total revenue from non-exchange transactions		**70,769,644**	**76,257,892**
Total revenue	25	**85,160,560**	**89,552,917**
Expenditure			
Employee related costs	26	(32,500,652)	(31,894,691)
Remuneration of councillors	27	(3,963,586)	(3,238,312)
Administration		(505,743)	(597,097)
Depreciation and amortisation	28	(9,669,698)	(43,368,749)
Impairment loss/ Reversal of impairments		(19,952,217)	-
Finance costs	29	(1,828,215)	(1,472,727)
Lease rentals on operating lease		160,412	-
Debt Impairment	30	(17,413,845)	(6,805,235)
Repairs and maintenance		(2,726,065)	(5,037,054)
Bulk purchases	31	(7,217,651)	(6,129,060)
General expenses	32	(15,658,314)	(32,246,618)
Total expenditure		**(111,275,574)**	**(130,789,543)**
Operating surplus / (deficit)		**(26,115,014)**	**(41,236,626)**
Loss on disposal of assets and liabilities		(2,887,743)	-
Actuarial gains/losses	16	1,328,000	-
		(1,559,743)	**-**
Surplus / (deficit) for the year		**(27,674,757)**	**(41,236,626)**

* See Note 39

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2013 as restated*	**375,361,135**	**375,361,135**
Changes in net assets		
Deficit for the year	(41,236,626)	(41,236,626)
Total changes	(41,236,626)	(41,236,626)
Opening balance as previously reported	264,093,761	264,093,761
Adjustments		
Prior year adjustments (refer note 40)	48,983,506	48,983,506
Restated* Balance at 01 July 2014 as restated*	**313,077,267**	**313,077,267**
Changes in net assets		
Deficit for the year	(27,674,757)	(27,674,757)
Total changes	(27,674,757)	(27,674,757)
Balance at 30 June 2015	**285,402,510**	**285,402,510**

Note(s)

* See Note 39

Cash Flow Statement

	Notes	2015 R	2014 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		27,420,320	21,738,846
Grants		53,310,995	48,967,100
Interest income		5,381,035	4,772,192
		86,112,350	75,478,138
Payments			
Employee costs		(36,465,483)	(35,198,896)
Suppliers		(10,880,785)	(27,286,523)
Finance costs		(1,495,129)	(1,124,628)
		(48,841,397)	(63,610,047)
Net cash flows from operating activities	33	**37,270,953**	**11,868,091**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(14,702,551)	(17,682,120)
Proceeds from sale of property, plant and equipment	9	746,903	-
Purchase of other intangible assets	10	-	(117,451)
Net cash flows from investing activities		**(13,955,648)**	**(17,799,571)**
Cash flows from financing activities			
Repayment of other financial liabilities		(2,455,658)	3,869,841
Finance lease payments		(612,976)	(296,217)
Net cash flows from financing activities		**(3,068,634)**	**3,573,624**
Net increase/(decrease) in cash and cash equivalents		**20,246,671**	**(2,357,856)**
Cash and cash equivalents at the beginning of the year		609,067	16,641,430
Cash and cash equivalents at the end of the year	7	**20,855,738**	**14,283,574**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	10,435,000	1,484,000	**11,919,000**	6,443,705	**(5,475,295)**	
Rental of facilities and equipment	-	-	**-**	209,890	**209,890**	
Licences and permits	-	-	**-**	1,379,139	**1,379,139**	
Commissions received	-	-	**-**	19,906	**19,906**	
Other income	6,790,000	755,000	**7,545,000**	957,241	**(6,587,759)**	
Interest received	1,600,000	(150,000)	**1,450,000**	5,381,035	**3,931,035**	
Total revenue from exchange transactions	**18,825,000**	**2,089,000**	**20,914,000**	**14,390,916**	**(6,523,084)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19,008,000	1,192,000	**20,200,000**	17,019,400	**(3,180,600)**	
Transfer revenue						
Government grants & subsidies	53,833,000	20,000,000	**73,833,000**	53,720,994	**(20,112,006)**	
Fines, Penalties and Forfeits	-	-	**-**	29,250	**29,250**	
Total revenue from non-exchange transactions	**72,841,000**	**21,192,000**	**94,033,000**	**70,769,644**	**(23,263,356)**	
Total revenue	**91,666,000**	**23,281,000**	**114,947,000**	**85,160,560**	**(29,786,440)**	
Expenditure						
Personnel	(37,998,000)	4,135,000	**(33,863,000)**	(32,500,652)	**1,362,348**	
Remuneration of councillors	(3,636,985)	152,000	**(3,484,985)**	(3,963,586)	**(478,601)**	
Administration	-	-	**-**	(505,743)	**(505,743)**	
Depreciation and amortisation	(15,000,000)	(8,000,000)	**(23,000,000)**	(9,669,698)	**13,330,302**	
Impairment loss/ Reversal of impairments	-	-	**-**	(19,952,217)	**(19,952,217)**	
Finance costs	(700,000)	-	**(700,000)**	(1,828,215)	**(1,128,215)**	
Lease rentals on operating lease	-	-	**-**	160,412	**160,412**	
Bad debts written off	-	-	**-**	(17,413,845)	**(17,413,845)**	
Repairs and maintenance	-	-	**-**	(2,726,065)	**(2,726,065)**	
Bulk purchases	(6,500,000)	(1,555,000)	**(8,055,000)**	(7,217,651)	**837,349**	
General expenses	(34,616,000)	(2,856,000)	**(37,472,000)**	(15,658,314)	**21,813,686**	
Total expenditure	**(98,450,985)**	**(8,124,000)**	**(106,574,985)**	**(111,275,574)**	**(4,700,589)**	
Operating deficit	**(6,784,985)**	**15,157,000**	**8,372,015**	**(26,115,014)**	**(34,487,029)**	
Loss on disposal of assets and liabilities	-	-	**-**	(2,887,743)	**(2,887,743)**	
Actuarial gains/losses	-	-	**-**	1,328,000	**1,328,000**	
	-	**-**	**-**	**(1,559,743)**	**(1,559,743)**	
Deficit before taxation	**(6,784,985)**	**15,157,000**	**8,372,015**	**(27,674,757)**	**(36,046,772)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(6,784,985)**	**15,157,000**	**8,372,015**	**(27,674,757)**	**(36,046,772)**	

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2015											
Financial Performance											
Property rates	19,008,000	1,192,000	20,200,000	-		20,200,000	17,019,400		(3,180,600)	84 %	90 %
Service charges	10,435,000	1,484,000	11,919,000	-		11,919,000	6,443,705		(5,475,295)	54 %	62 %
Investment revenue	1,600,000	(150,000)	1,450,000	-		1,450,000	5,381,035		3,931,035	371 %	336 %
Transfers recognised - operational	41,018,000	(112,000)	40,906,000	-		40,906,000	40,905,994		(6)	100 %	100 %
Other own revenue	6,790,000	755,000	7,545,000	-		7,545,000	2,595,426		(4,949,574)	34 %	38 %
Total revenue (excluding capital transfers and contributions)	**78,851,000**	**3,169,000**	**82,020,000**	**-**		**82,020,000**	**72,345,560**		**(9,674,440)**	**88 %**	**92 %**
Employee costs	(37,998,000)	4,135,000	(33,863,000)	-	-	(33,863,000)	(32,500,652)	-	1,362,348	96 %	86 %
Remuneration of councillors	(3,636,985)	152,000	(3,484,985)	-	-	(3,484,985)	(3,963,586)	-	(478,601)	114 %	109 %
Debt impairment	-	-	-			-	(17,413,845)	-	(17,413,845)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(15,000,000)	(8,000,000)	(23,000,000)			(23,000,000)	(29,621,915)	-	(6,621,915)	129 %	197 %
Finance charges	(700,000)	-	(700,000)	-	-	(700,000)	(1,828,215)	-	(1,128,215)	261 %	261 %
Materials and bulk purchases	(6,500,000)	(1,500,000)	(8,000,000)	-	-	(8,000,000)	(7,217,651)	-	782,349	90 %	111 %
Other expenditure	(34,616,000)	(2,856,000)	(37,472,000)	-	-	(37,472,000)	(21,617,453)	-	15,854,547	58 %	62 %
Total expenditure	**(98,450,985)**	**(8,069,000)**	**(106,519,985)**	**-**	**-**	**(106,519,985)**	**(114,163,317)**	**-**	**(7,643,332)**	**107 %**	**116 %**
Surplus/(Deficit)	**(19,599,985)**	**(4,900,000)**	**(24,499,985)**	**-**		**(24,499,985)**	**(41,817,757)**		**(17,317,772)**	**171 %**	**213 %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	12,815,000	19,702,000	32,517,000	-		32,517,000	12,815,000		(19,702,000)	39 %	100 %
Surplus (Deficit) after capital transfers and contributions	**(6,784,985)**	**14,802,000**	**8,017,015**	**-**		**8,017,015**	**(29,002,757)**		**(37,019,772)**	**(362)%**	**427 %**
Surplus/(Deficit) for the year	**(6,784,985)**	**14,802,000**	**8,017,015**	**-**		**8,017,015**	**(29,002,757)**		**(37,019,772)**	**(362)%**	**427 %**
Capital expenditure and funds sources											
Total capital expenditure	12,215,000	(24,048,000)	(11,833,000)	-		(11,833,000)	21,448,790		33,281,790	(181)%	176 %

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 (No. 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.

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.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therfore as follows:

Standards Issued and Effective:
- GRAP 1 - Presenttion of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 5 - Borrowing costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property, Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue From Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Cash Generating Assets
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Opertions (as revised in 2010)
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - Can Base Accounting Policy on, or early adopt:
- GRAP 18 - Segment Reporting
- GRAP 20 - Related Party Disclosures

Interpretations:
- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3 - Determining whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Evironmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

1.1 Presentation currency

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

Accounting Policies

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

In 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 and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality 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 and other 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.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

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 18 - Provisions.

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 16.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

1.4 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.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

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

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.

1.5 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets 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.

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	**Average useful life**
Land	Indefinite
Infrastructure	
• Tarred roads and paving	30 – 50 years
• Access roads	3 – 5 years
• Electricity	7 – 50 years
Other property, plant and equipment	
• Buildings and related items	5 - 30 years
• Recreational facilities and related items	5 - 30 years
• Halls and related items	5 - 30 years
• Parks and gardens and related items	5 - 30 years
• Plant, machinery and other equipment	5 - 25 years
• Furniture, fittings and office equipment	5 - 10 years
• Motor vehicles	5 - 10 years
Landfill sites	4 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at 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.

1.5 Property, plant and equipment (continued)

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 or disposal 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.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 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.

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

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

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

1.7 Intangible assets (continued)

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	3 – 5 years

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.

1.8 Heritage assets

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

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Transfers

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

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

Derecognition

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

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

Transitional provision

The municipality changed its accounting policy for heritage assets in the 2012/2013 financial year. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

1.8 Heritage assets (continued)

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts of R1 each, as disclosed in 11. The transitional provision expires on 30/06/2015.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.9 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.

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

1.9 Financial instruments (continued)

- 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 liability is any liability that is a contractual obligation to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.9 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
Receivable from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	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
Payables from exchange transactions	Financial liability measured at amortised cost
Long term borrowings	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

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.

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.

1.9 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.

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:

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

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

Financial assets measured at cost:

1.9 Financial instruments (continued)

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

Derecognition

Financial assets

The entity derecognises 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.

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

Financial liabilities

The 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.

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

Presentation

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

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

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.

1.10 Leases

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

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

1.10 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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.

1.11 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.

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

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

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

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

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

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

1.12 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.

1.12 Impairment of cash-generating assets (continued)

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.

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.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.14 Employee benefits

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.

1.14 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.

1.15 Provisions and contingencies

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

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

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

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

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.

1.15 Provisions and contingencies (continued)

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 contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

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

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

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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.

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest 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 method.

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognisd as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made 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 average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tarrif to each property that has improvements. The tarrifs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

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

1.16 Revenue from exchange transactions (continued)

Tarrif charges

Revenue arising from the application of approved tarrifs is recognised when the service is rendered by applying the relevant authorised tarrif. This includes the issue of licenses and permits.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement , where such terms span over more than one financial year a straight-line basis is used.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets.

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.17 Revenue from non-exchange transactions (continued)

Rates, including collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforcable. Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. Rebates are granted to certain categories of rate payers and are deducted from the revenue.

Transfers

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

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

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

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Public contributions

Revenue from public contributions is recognised on a cash basis when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not yet been met, a liability is recognised.

Government grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Governmet grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investments is treated in accordance with the grant conditions. If it is payable to the founder 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 in the period in which it is received.

1.17 Revenue from non-exchange transactions (continued)

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

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note 40 to the financial statements.

1.21 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.

1.22 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.

1.23 Irregular expenditure

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

1.24 Conditional grants and receipts

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

1.25 Budget information

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

1.25 Budget information (continued)

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 an accrual basis and presented by functional classification linked to performance outcome objectives.

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

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.

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. The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note to the Annual Financial Statements.

Comparative information is not required.

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 local sphere of government are considered to be related parties.

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

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

1.27 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not been recognised anywhere else in the financial statements.

At the end of each financial period, the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in note 36 - commitments in the financial statements.

1.28 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirementsexcept to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospecively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note 39 to the financial statements.

Accounting Policies

1.29 Offsetting

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

1.30 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.31 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT.

Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

Notes to the Annual Financial Statements

	2015	2014 Restated*
	R	R

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 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.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	The impact of the amendment is not material.
• GRAP 107: Mergers	01 April 2015	The impact of the amendment is not material.
• GRAP 20: Related parties	01 April 2016	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
• 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 impact of the amendment is not material.
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2015	The impact of the amendment is not material.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2015	The impact of the amendment is not material.
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP108: Statutory Receivables	01 April 2016	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
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	The impact of the amendment is not material.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

3. Inventories

Land designated for housing	-	25,824,610
Inventories derecognised as inventory during the year	25,824,610	-

During the period land parcels relating to low-cost housing, which had not been transferred to the individuals, which were incorrectly disclosed and accounted for as the municipal inventories have been derecognised.

These parcels were derecognised as inventory, since they do not meet the definition of an asset of the municipality, as they are not in control of the municipality.

4. Receivables from exchange transactions

Trade debtors	32,103,034	27,885,758
Debt impairment	(29,691,011)	(20,897,815)
Sundry debtors	624,329	712,822
Unallocated receipts	75,381	127,920
	3,111,733	**7,828,685**

2015

Consumer debtors by debtor type	**0-30 Days**	**60 Days**	**90 Days +**	**Total**
Government	107,302	172,995	1,907,090	2,187,387
Residents and others	689,724	554,007	28,747,843	29,991,574
Industries	2,247	251	16,092	18,590
	799,273	**727,253**	**30,671,025**	**32,197,551**

Consumer debtors by revenue type	**0-30 Days**	**60 Days**	**90 Days +**	**Total**
Electricity	255,830	225,182	4,437,551	4,918,563
Refuse removal	540,821	497,245	12,900,521	13,938,587
Sundry	2,622	4,826	13,332,953	13,340,401
	799,273	**727,253**	**30,671,025**	**32,197,551**

2014

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	90,585	61,810	1,024,885	1,177,280
Residents and others	1,351,370	388,748	22,588,032	24,328,150
Industries	214,866	163,521	2,028,435	2,406,822
	1,656,821	**614,079**	**25,641,352**	**27,912,252**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	273,594	222,921	2,666,955	3,163,470
Refuse removal	518,450	324,403	10,126,931	10,969,784
Sundry	864,777	66,755	12,847,466	13,778,998
	1,656,821	**614,079**	**25,641,352**	**27,912,252**

	2015 R	2014 R

4. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings listed below:

Trade receivables

Counterparties with external credit rating		
A (Government)	280,297	152,395
B (Business)	2,498	378,387
C (Domestic and other	1,243,731	1,740,118
	1,526,526	**2,270,900**

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

B - The debtors are usually good payers but there is a possibility that the debtors may not be able to pay on time.

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

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2015, R 3,007,446 (2014: R 2,421,358) were past due but not impaired.

1 month past due	799,273	1,656,821
2 months past due	727,253	614,079
3 months past due	1,480,920	150,458

Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R 32,197,550.70 (2014: R 28,061,827) were impaired and provided for.

The amount of the provision was R 29,691,011 as of 30 June 2015 (2014: R 20,897,815).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	20,897,815	18,815,171
Provision for impairment	8,793,196	2,082,644
	29,691,011	**20,897,815**

During the period errors noted have been correct under the comparitive refer to note 39.

Notes to the Annual Financial Statements

	2015 R	2014 R

5. Receivables from non-exchange transactions

	2015 R	2014 R
Fines	70,950	42,200
Assessment rates	39,840,423	31,276,747
Debt impairment	(38,156,954)	(29,536,305)
	1,754,419	**1,782,642**

2015

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	46,849	42,422	1,064,330	1,153,601
Residents and others	124,805	114,687	3,403,097	3,642,589
Industries	1,692,842	1,218,919	32,132,470	35,044,231
	1,864,496	**1,376,028**	**36,599,897**	**39,840,421**

2014

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
A (Government)	55,143	50,777	780,852	886,772
B (Business)	237,903	199,653	4,757,816	5,195,372
C (Domestic and other)	1,174,094	918,811	23,101,698	25,194,603
	1,467,140	**1,169,241**	**28,640,366**	**31,276,747**

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions

Counterparties with external credit rating	2015 R	2014 R
A (Government)	89,272	105,920
B (Business)	239,493	437,556
C (Domestic and other)	2,911,762	2,092,905
	3,240,527	**2,636,381**

A – The debtors are of good credit quality and no default as expected.

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

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

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 4,285,650 (2014: R 2,784,690) were past due but not impaired.

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

	2015 R	2014 R
1 month past due	1,595,298	1,467,140
2 months past due	1,376,028	1,169,241
3 months past due	1,314,324	148,309
	4,285,650	**2,784,690**

Notes to the Annual Financial Statements

	2015 R	2014 R

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2015, other receivables from non-exchange transactions of R 41,914,974 (2014: R29,536,305) were impaired and provided for.

The amount of the provision was R 38,156,954 as of 30 June 2015 (2014: R 24 813 714).

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

Opening balance	29,536,305	24,813,714
Provision for Rates impairment	8,578,449	4,722,591
Provision for Fines impairment	42,200	-
	38,156,954	**29,536,305**

During the period errors noted have been correct under the comparitive refer to note 39 .

6. VAT receivable

VAT	1,200,912	1,943,151

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C.

During the period errors noted have been correct under the comparitive refer to note 39.

7. Cash and cash equivalents

Cash and cash equivalents consist of bank balances for current accounts and call deposit accounts:

Bank balances	556,515	277,816
Short-term deposits	20,299,223	331,251
	20,855,738	**609,067**

During the period errors noted have been correct under the comparitive refer to note 39.

7. 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**
Standard Bank - 208720963 (Primary account)	992,663	1,687,298	2,132,454	556,515	277,816	1,962,708
Standard Bank - 285973452	986	247,018	306,064	247,018	247,018	306,064
Standard Bank - 285946110	-	5,701	7,872	5,701	5,701	7,872
Standard Bank - 285977334	-	12,828	412,986	12,831	12,828	412,986
Standard Bank - 388520523-401	-	1,543	1,523	1,568	1,543	1,523
ABSA Bank - 9079485834	10,892	10,830	10,812	10,830	10,830	10,810
Standard Bank - 388528672-004	1,360	23,726	1,108,647	1,021	23,726	1,108,647
Standard Bank - 388526734-003	-	1,590	426,294	1,590	1,590	426,294
Standard Bank - 388527544-402	1,906	1,380	32,380	1,906	1,380	32,380
Standard Bank - 388523786-001	-	1,482	406,987	1,482	1,482	406,987
ABSA Bank - 9059902802	-	-	767,563	7	-	767,563
Standard Bank - 388529768-402	20,056,277	23,049	11,017,631	20,006,713	23,049	11,017,631
Standard Bank - 388528672-002	5,226	2,104	179,965	5,551	2,104	179,965
Standard Bank - 388523786-002	4,127	-	-	4,127	-	-
Total	**21,073,437**	**2,018,549**	**16,811,178**	**20,856,860**	**609,067**	**16,641,430**

8. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	74,253,400	-	74,253,400	74,253,400	-	74,253,400

Reconciliation of investment property - 2015

	Opening balance	**Total**
Investment property	74,253,400	74,253,400

Reconciliation of investment property - 2014

	Opening balance	**Total**
Investment property	74,253,400	74,253,400

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.

	2015 R	2014 R

9. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	81,621,289	-	81,621,289	81,621,289	-	81,621,289
Buildings	63,759,129	(16,434,270)	47,324,859	56,883,474	(12,644,855)	44,238,619
Infrastructure	185,646,580	(103,715,119)	81,931,461	178,749,027	(77,816,609)	100,932,418
Other property, plant and equipment	10,784,063	(5,395,953)	5,388,110	12,461,969	(6,447,726)	6,014,243
Work in progress	24,811,385	-	24,811,385	25,838,781	-	25,838,781
Finance lease assets	1,447,915	(1,107,151)	340,764	1,447,915	(1,107,151)	340,764
Landfill site asset	2,047,937	(736,216)	1,311,721	2,047,937	(552,162)	1,495,775
Total	**370,118,298**	**(127,388,709)**	**242,729,589**	**359,050,392**	**(98,568,503)**	**260,481,889**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Total
Land	81,621,289	-	-	-	-	-	81,621,28
Buildings	44,238,619	3,399,702	-	3,475,953	(1,282,652)	(2,506,763)	47,324,85
Infrastructure	100,932,418	2,954,296	(746,903)	4,690,159	(17,857,859)	(8,040,650)	81,931,46
Other property, plant and equipment	6,014,243	1,209,837	(2,887,743)	-	2,514,495	(1,462,722)	5,388,11
Work in progress	25,838,781	7,138,716	-	(8,166,112)	-	-	24,811,38
Finance lease asset	340,764	-	-	-	-	-	340,76
Landfill site asset	1,495,775	-	-	-	-	(184,054)	1,311,72
	260,481,889	**14,702,551**	**(3,634,646)**	**-**	**(16,626,016)**	**(12,194,189)**	**242,729,58**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Land	81,621,289	-	-	-	81,621,289
Buildings	41,370,620	3,698,803	1,398,175	(2,228,979)	44,238,619
Infrastructure	110,460,491	6,339,546	2,195,716	(18,063,335)	100,932,418
Other property, plant and equipment	4,783,770	2,449,155	-	(1,218,682)	6,014,243
Work in progress	24,476,272	4,956,399	(3,593,890)	-	25,838,781
Finance lease assets	700,242	-	-	(359,478)	340,764
Landfill site asset	1,441,612	238,217	-	(184,054)	1,495,775
	264,854,296	**17,682,120**	**1**	**(22,054,528)**	**260,481,889**

Pledged as security

Carrying value of assets pledged as security:

	2015	2014
Land and buildings	-	2,697,279

The property ERF 125 is the municipality's head office. The property is mortgaged to DBSA for a loan advanced to the municipality.

	2015 R	2014 R

9. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2015	2014
Finance lease assets	340,764	340,764

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.

10. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	415,072	(374,886)	40,186	415,072	(320,079)	94,993

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	94,993	(54,807)	40,186

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	90,955	117,451	(113,413)	94,993

Notes to the Annual Financial Statements

	2015 R	2014 R

11. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	-	-	-	8	-	8

Reconciliation of heritage assets 2015

	Opening balance	Transfers	Total
Heritage assets	8	(8)	-

Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets	8	8

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain heritage asset with a carrying value of R - (2014: R -) was recognised at provisional amounts. Carrying amounts of heritage asset carried at provisional amounts are as follows:

Due to initial adoption of GRAP 103

	2015	2014
Mayors Chain	-	1
Draaibosch Memorial	-	1
Town Library	-	1
Intabe'mpetu	-	1
Old Jail	-	1
Ngxingxolo River	-	1
Tyityaba River	-	1
St John Church	-	1

Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103 will be taken during the 2014/2015 financial year.

The date at which full compliance with GRAP 103 is expected, is 01 July 2015.

Notes to the Annual Financial Statements

	2015 R	2014 R
12. Other financial liabilities		
At amortised cost		
AGSA Debt arrangement The amount owed to the AGSA was ring fenced to include the amount owed to the AGSA as at 31 May 2014, bears interest at prime and is payable over 24 months in monthly instalments of R136 473 until April 2016.	2,127,599	3,219,382
Amatole District Municipality Debt arrangement During the 2013/2014 financial year a debt arrangement was entered into whereby the Municipality undertakes to repay monthly instalments of R98 497 over and above the continuing monthly charge until such time as the outstanding balance is repaid. This arrangement does not bear interest.	-	984,969
Long term borrowings The DBSA loan bears interest at 13% and is redeemable on 31 March 2019.	1,940,754	2,319,660
Total other financial liabilities	**4,068,353**	**6,524,011**
Non-current liabilities		
At amortised cost	2,714,906	4,085,240
Current liabilities		
At amortised cost	1,353,447	2,438,771

Notes to the Annual Financial Statements

	2015 R	2014 R

13. Finance lease obligation

Minimum lease payments due		
- within one year	641,509	612,976
- in second to fifth year inclusive	774,663	1,416,173
	1,416,172	2,029,149
less: future finance charges	(408,035)	(741,121)
Present value of minimum lease payments	**1,008,137**	**1,288,028**
Present value of minimum lease payments due		
- within one year	412,650	279,890
- in second to fifth year inclusive	595,508	1,008,138
	1,008,158	**1,288,028**
Non-current liabilities	595,488	1,008,138
Current liabilities	412,650	279,890
	1,008,138	**1,288,028**

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

The lease terms of finance lease agreements vary from three to five years.

Interest rates are fixed at the contract date. Leases escalate at 10% p.a and no arrangements have been entered into for contigent rent. The interest rate implicit used ranges between 24.56% - 49.14% per annum.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

Depreciation and finance charges relating to leased assets are included in the total depreciation and finance charges respectively.

During the period errors noted have been correct under the comparitive refer to note 39.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	1,288,028	1,288,028

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 41.

The fair value of finance lease liabilities approximates their carrying amounts.

14. Payables from exchange transactions

Trade payables	14,546,961	14,916,974
Payments received in advance	3,119,195	1,521,242
Accrued leave pay	1,505,280	1,524,800
Accrued bonus	1,507,335	870,629
Deposits received	194,875	156,320
Salary suspense account	1,117,908	734,733

During the period errors noted have been correct under the comparitive refer to note 39.

15. Consumer deposits

Electricity	80,503	80,503

Notes to the Annual Financial Statements

	2015 R	2014 R

16. Employee benefit obligations

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

	2015 R	2014 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7,084,000)	(5,431,000)
Current service costs	(678,000)	(576,000)
Interest cost	(738,000)	(519,000)
Net acturial gains or (losses) not recognised	1,328,000	(713,000)
Benefits paid	240,000	155,000
Long Service Awards	(1,099,000)	(1,099,000)
	(8,031,000)	**(8,183,000)**

	2015 R	2014 R
Non-current liabilities	(7,284,000)	(7,505,000)
Current liabilities	(747,000)	(678,000)
	(8,031,000)	**(8,183,000)**

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

	2015 R	2014 R
Opening balance	7,084,000	5,431,000
Benefits paid	(166,000)	(155,000)
Net expense recognised in the statement of financial performance	(177,000)	1,808,000
	6,741,000	**7,084,000**

Net expense recognised in the statement of financial performance

	2015 R	2014 R
Current service cost	437,000	576,000
Interest cost	646,000	519,000
Actuarial (gains) losses	(1,260,000)	713,000
	(177,000)	**1,808,000**

Calculation of actuarial gains and losses

	2015 R	2014 R
Actuarial (gains) losses – Obligation	(1,260,000)	713,000

Key assumptions used

Assumptions used at the reporting date:

	2015	2014
Discount rates used	8.94 %	8.94 %
Expected rate of return on assets	7.05 %	7.05 %
Expected rate of return on reimbursement rights	8.05 %	8.05 %
Actual return on reimbursement rights	0.82 %	0.82 %

Other assumptions

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result to a 1% increase and 1% decrease in the assumed cost inflation assumption.

	20% decrease R	**Base % R**	**20% increase R**
Defined benefit obligation	7,283,000	6,741,000	6,297,000
Interest Costs	683,000	632,000	589,000
Service Cost	558,000	513,000	476,000

	2015 R	2014 R

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2015 R	2014 R
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	20,000,000	-
Municipal Systems Infrastructure Grant	-	1,897
EPWP Grant	64	58
	20,000,064	**1,955**

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

See note 24 for reconciliation of grants from National/Provincial Government.

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

18. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	2,891,741	472,114	3,363,855

Reconciliation of provisions - 2014

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	2,471,276	420,465	2,891,741

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. It is calculated as the present value of the future obligation, discounted at 7% over the remaining 3 year period after which the site is required to be rehabilitated.

The most critical **assumptions** for estimating the rehabilitation costs of the Qumrha landfill were:

That the lifespan of the site from July 2015 will be 3 years as per the directive from the Department of Economic Development, Environmental Affairs and Tourism.

That 40% of the site's area was used in 2012 based on the recommendations by the Department of Environmental Affairs that the wetland should not be utilised (however, the wetland area was being utilised as part of the airspace (in 2012), that is before the recommendation was made.

19. Service charges

	2015 R	2014 R
Sale of electricity	5,395,207	3,639,500
Refuse removal	1,048,498	2,229,118
	6,443,705	**5,868,618**

	2015 R	2014 R

20. Rental of facilities and equipment

Premises		
Premises	63,777	58,047
Facilities and equipment		
Rental of facilities	146,113	149,379
	209,890	**207,426**

21. Other income

Other income	652,564	587,081
Building plan fees	250,413	144,665
LG SETA training allowance	35,731	113,106
Clearance fees	18,533	11,528
	957,241	**856,380**

Other Income Comprises:		
Basic electricity	103,790	86,020
Burial and cemetary	2,455	6,635
Connection fees	216,077	175,562
Sundry revenue	318,805	318,865
	641,127	**587,082**

22. Interest received

Interest revenue		
Interest from investments	276,469	717,422
Interest charged on trade and other receivables	5,104,566	3,683,918
	5,381,035	**4,401,340**

23. Property rates

Rates received

Property rates	17,019,400	16,423,809

Valuations

Commercial	188,547,000	131,740,000
Residential	2,706,184,000	2,144,002,281
Schools	40,360,000	71,320,000
Small holdings and farms	906,241,800	778,250,292
State	30,344,100	116,825,327
Unkown	-	823,411,404
Vacant	9,357,000	387,402,431
	3,881,033,900	**4,452,951,735**

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions

Rates are levied on a monthly basis.

Notes to the Annual Financial Statements

	2015 R	2014 R

24. Government grants and subsidies

	2015 R	2014 R
Operating grants		
Equitable share	36,762,000	33,921,973
Municipal Systems Improvement Grant	934,000	888,630
Library Subsidy	410,000	410,129
Financial Management Grant	1,800,000	1,650,000
EPWP Grant	999,994	999,942
IEC Election Grant	-	2,100
LED Subsidy	-	112,000
	40,905,994	37,984,774
Capital grants		
Municipal Infrastructure Grant (Capital)	12,815,000	21,795,909
	12,815,000	21,795,909
	53,720,994	**59,780,683**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2015 R	2014 R
Conditional grants received	40,905,994	37,984,774
Unconditional grants received	12,815,000	21,795,909
	53,720,994	**59,780,683**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. There are no conditions attached to the equitable share and as such is recognised as revenue when received.

Municipal Infrastructure Grant

	2015 R	2014 R
Balance unspent at beginning of year	-	8,404,973
Current-year receipts	32,815,000	13,696,000
Conditions met - transferred to revenue	(12,815,000)	(21,796,000)
Other	-	(304,973)
	20,000,000	**-**

Conditions still to be met - remain liabilities (see note 17).

The grant is allocated for the construction of infratructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Minerals and Energy Grant

	2015 R	2014 R
Balance unspent at beginning of year	-	2,000,000
Other	-	(2,000,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

The Minerals and Energy Grant is an provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

	2015 R	2014 R

24. Government grants and subsidies (continued)

Municipal Systems Improvement Grant

	2015 R	2014 R
Balance unspent at beginning of year	1,897	436
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(935,897)	(888,539)
	-	**1,897**

Conditions still to be met - remain liabilities (see note 17).

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

Financial Management Grant

	2015 R	2014 R
Current-year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)
	-	**-**

Conditions met.

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).

EPWP Grant

	2015 R	2014 R
Balance unspent at beginning of year	58	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(999,994)	(999,942)
	64	**58**

Conditions still to be met - remain liabilities (see note 17).

This program is aimed at providing poverty and income relief through the creation of temporary work opportunities.

IEC Election Grant

	2015 R	2014 R
Current-year receipts	-	2,100
Conditions met - transferred to revenue	-	(2,100)
	-	**-**

Conditions met.

This grant was provided to assist with the preparation of the 2014 general elections.

LED Subsidy

	2015 R	2014 R
Current-year receipts	-	112,000
Conditions met - transferred to revenue	-	(112,000)
	-	**-**

Conditions met.

This subsidy is intended to assist in the funding of development projects and programmes.

Notes to the Annual Financial Statements

	2015 R	2014 R

24. Government grants and subsidies (continued)

Changes in level of government grants

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

25. Revenue

	2015 R	2014 R
Service charges	6,443,705	5,868,618
Rental of facilities and equipment	209,890	207,426
Licences and permits	1,379,139	1,659,929
Commissions received	19,906	301,332
Other income	957,241	856,380
Interest received	5,381,035	4,401,340
Property rates	17,019,400	16,423,809
Government grants & subsidies	53,720,994	59,780,683
Fines, Penalties and Forfeits	29,250	53,400
	85,160,560	**89,552,917**

	2015 R	2014 R
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	6,443,705	5,868,618
Rental of facilities and equipment	209,890	207,426
Licences and permits	1,379,139	1,659,929
Commissions received	19,906	301,332
Other income	957,241	856,380
Interest received	5,381,035	4,401,340
	14,390,916	**13,295,025**

	2015 R	2014 R
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	17,019,400	16,423,809
Transfer revenue		
Government grants & subsidies	53,720,994	59,780,683
Fines, Penalties and Forfeits	29,250	53,400
	70,769,644	**76,257,892**

	2015 R	2014 R

26. Employee related costs

Basic	22,679,727	21,192,356
Bonus	2,021,628	1,856,648
Medical aid - company contributions	1,409,057	1,316,303
UIF	187,450	191,866
SDL	301,058	180,798
Other payroll levies	15,900	16,427
Pension	2,644,974	2,475,553
Travel, motor car, accommodation, subsistence and other allowances	1,342,852	1,412,669
Overtime payments	726,321	780,431
Long-service awards	167,000	128,000
Acting allowances	520,691	387,974
Housing benefits and allowances	212,994	301,666
Post employment benefits expense - Defined benefit	271,000	1,654,000
	32,500,652	**31,894,691**

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

During the period errors noted have been correct under the comparitive refer to note 39.

Remuneration of Municipal Manager - CM Mbekela

Annual Remuneration	141,765	561,780
Car Allowance	79,619	227,468
Contributions to UIF, Medical and Pension Funds	297	152,943
Other	-	23,763
	221,681	**965,954**

The Municipal Manager's contract was terminated as from the 14 September 2014.

Remuneration of Chief Finance Officer - M L MOSALA

Annual Remuneration	439,565	-
Car Allowance	18,204	-
Contributions to UIF, Medical and Pension Funds	2,082	-
Other	39,673	-
	499,524	**-**

Remuneration of Director: Corporate Services - I SIKHULU-NQWENA

Annual Remuneration	320,810	-
Car Allowance	181,149	-
Contributions to UIF, Medical and Pension Funds	2,082	-
Other	3,967	-
	508,008	**-**

Remuneration of Director: Technical Services - JF Van Dalen

Annual Remuneration	517,504	435,914
Car Allowance	311,455	209,599
Contributions to UIF, Medical and Pension Funds	3,569	106,492
Other	10,116	18,305
	842,644	**770,310**

	2015 R	2014 R

26. Employee related costs (continued)

A number of vacancies currently exist within senior management. These positions are currently occupied by staff in acting capacities. Acting allowances are included in employee remunerationt

27. Remuneration of councillors

	2015 R	2014 R
Mayor/Speaker	806,894	681,489
Chief Whip	-	214,748
Councillors	2,057,073	1,712,946
Councillors' allowances	1,099,619	629,129
	3,963,586	**3,238,312**

Remuneration of Mayor (Speaker) - N Tekile

	2015 R	2014 R
Salary	480,772	460,901
Allowances	326,122	220,588
	806,894	**681,489**

Chief Whip - Ndabambi-Gavumente L

	2015 R	2014 R
Salary	151,380	138,270
Allowances	154,838	76,478
	306,218	**214,748**

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

In-kind benefits

The Mayor is a full-time councillor. The mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor holds the position of the speaker as well.

28. Depreciation and amortisation

	2015 R	2014 R
Property, plant and equipment	9,614,891	43,095,173
Intangible assets	54,807	273,576
	9,669,698	**43,368,749**

29. Finance costs

	2015 R	2014 R
Non-current borrowings	285,015	329,070
Finance leases	333,086	348,099
Other interest paid	1,210,114	795,558
	1,828,215	**1,472,727**

30. Debt impairment

	2015 R	2014 R
Debt impairment	17,413,845	6,805,235

31. Bulk purchases

	2015 R	2014 R
Electricity	7,217,651	6,129,060

Notes to the Annual Financial Statements

	2015 R	2014 R

32. General expenses

	2015 R	2014 R
Advertising	418,468	814,256
Auditors remuneration	1,796,589	6,086,018
Bank charges	106,913	141,550
Cleaning	44,102	37,034
Commission paid	645,312	41,179
Conferences and seminars	74,556	139,659
Consulting and professional fees	1,186,272	4,761,032
Database cleansing	402,991	2,025,502
Electricity	160,766	233,201
Entertainment	109,409	223,985
Finance Management Grant	1,080,448	1,333,641
Fines and penalties	-	171,046
Free basic electricity	290,536	267,619
Fuel and oil	837,622	986,626
Insurance	232,309	252,558
LED projects	117,947	316,233
Legal expenses	1,220,882	427,232
Life saving services	215,891	302,280
Magazines, books and periodicals	129,596	113,640
Membership fees	109,369	84,078
Motor vehicle expenses	56,591	7,399
Other expenses	81,830	2,369,961
Postage and courier	172,629	196,986
Project maintenance costs	457,279	331,914
Promotions and sponsorships	-	43,920
Protective clothing	33,007	213,055
Refuse	65,210	106,831
Software expenses	398,378	392,719
Subscriptions and membership fees	806,214	296,375
Telephone and fax	1,595,195	1,459,540
Training	92,539	425,036
Travel - local	481,292	612,233
Valuation roll	-	1,167,360
Valuaton costs	-	2,332,355
Ward Committee expense	-	135,534
Ward Council expense	796,890	829,210
Water	1,441,282	2,567,821
	15,658,314	**32,246,618**

Notes to the Annual Financial Statements

	2015 R	2014 R

33. Cash generated from operations

	2015 R	2014 R
Deficit	(27,674,757)	(41,236,626)
Adjustments for:		
Depreciation and amortisation	9,669,698	43,368,749
Gain on sale of assets and liabilities	2,887,743	-
Finance costs - Finance leases	333,086	348,099
Impairment deficit	19,952,217	-
Debt impairment	17,413,845	6,805,235
Movements in retirement benefit assets and liabilities	(152,000)	1,813,000
Movements in provisions	472,114	420,465
Transfer of assets	4,030,473	6,936,157
Changes in working capital:		
Receivables from exchange transactions	4,716,952	734,323
Debt Impairment	(17,413,845)	(6,805,235)
Other receivables from non-exchange transactions	28,223	(3,562,357)
Payables from exchange transactions	2,266,856	4,212,676
VAT	742,239	9,237,059
Unspent conditional grants and receipts	19,998,109	(10,403,454)
	37,270,953	**11,868,091**

34. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	12,939,381	12,939,381
Other receivables from non-exchange transactions	-	7,889,186	7,889,186
Cash and cash equivalents	20,856,860	-	20,856,860
	20,856,860	**20,828,567**	**41,685,427**

Financial liabilities

	At amortised cost	Total
Finance lease obligation	1,288,028	1,288,028
Other financial liabilities	6,479,615	6,479,615
Trade and other payables from exchange transactions	20,529,396	20,529,396
Consumer deposits	80,503	80,503
	28,377,542	**28,377,542**

2014

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	7,828,685	7,828,685
Other receivables from non-exchange transactions	-	1,782,642	1,782,642
Cash and cash equivalents	609,067	-	609,067
	609,067	**9,611,327**	**10,220,394**

	2015 R	2014 R

. **Financial instruments disclosure (continued)**

Financial liabilities

	At amortised cost	**Total**
Finance lease obligation	1,288,028	1,288,028
Trade and other payables from exchange transactions	19,730,450	19,730,450
Unspent conditional grants and receipts	1,955	1,955
Other financial liabilities - current liability portion	2,438,771	2,438,771
Other financial liabilities - non-current portion	4,085,240	4,085,240
Consumer deposits	80,503	80,503
	27,624,947	**27,624,947**

35. Auditors' remuneration

Fees	1,796,589	6,086,018

36. Commitments

Authorised capital expenditure

Authorised and contracted by accounting officer		
• Property, plant and equipment	3,635,652	16,707,596
• Community	135,174	1,050,393
• Other	14,369,827	475,029
	18,140,653	**18,233,018**
Authorised and not yet contracted by accounting officer		
• Property, plant and equipment	30,689,925	-
Total capital commitments		
Already contracted for but not provided for	18,140,653	18,233,018
Not yet contracted for and authorised by accounting officer	30,689,925	-
	48,830,578	**18,233,018**

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

	2015 R	2014 R

37. Contingencies

Contingent liabilities

Mr. G. Deponselle - Contravention of Section 4 of the National Building Regulations Act	125,000	35,000
East Coast Rate Payers and Residents Forum - This matter dwals with the proposed agreement the East Coast Rate Payers and Residents Forum	-	100,000
Inverlochy Trust Share Block (Pty) Ltd - Conveyancing	10,000	10,000
Jet Vest/Great Kei Municipality - High court application to set aside deed of sale	1,000,000	1,000,000
LN Mafanya - Illegal building works	125,000	35,000
Great Kei Municipality unauthorised withdrawals investigation	-	50,000
Mr G. Naude - Contravention of Section 4 of the National Building Regulations Act	125,000	35,000
Pick 'n Pay Hardware / Great Kei Municipality	-	5,000
Milisithando Trading CC and Nondyebo Lerato George Case	-	60,000
Matters involving the National Building Regulations Act, Building Standards Act of 1977 and Land Ordinance Act of 1985 as well as clause 4.1 of the Buildings Regulations	-	35,000
Ntshingwa Intervention: Claim for work done	-	400,000
Hearing with Municipal Manager	190,000	190,000
Applications to High Court for compliance/demolition orders for non-compliance building regulations (Gerber/Opi Kopi, Morgan and Trudy Thomas)	375,000	-
	1,950,000	**1,955,000**

Uncertainty exists as to the timing or amount of these contingent liabilities and assets.

Offences, Penalties and Forefeiture of the Environment Conservation Act 1989

The Municipality does not have a permit for the landfill site. This is in contravention of the above mentioned Act. The Municipality may be liable for a fine not exceeding R100 000.

38. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	Key management of the Municipality have relationships with businesses as indicated below:
Chris Mbekela	Member of CMM Mind Power
Councillors	Refer to the list of councillors disclosed under general information. Councillors of the Municipality have relationships with businesses as indicated below:
Nosipho Ngabeyewa	Member of Thunga Trading Co Opt
Zacharia Viwe Mapukata	Director Kupukani Construction Director Vinom Projects Director Beaveal Consulting Director Nduto Trading

Councillors, executive management and staff received salaries for services rendered relating to their employment within the Municipality, refer notes 26 and 27. No other related party transactions took place during the year.

39. Prior year adjustments

Assets

39. Prior year adjustments (continued)

Receivables from exchange transactions

During the period it was noted that the VAT on Consumer Debtors had been erroneously included in the VAT receivable balance. It was also noted that the interest relating to the rates included under the Receivables from Exchange transactions, had not been separately disclosed, as required.

Furthermore the debt impairment provision was recalculated, which resulted in the receivables from exchange trasactions being adjusted.

These errors have been adjusted for in the comparitive and restatements have been performed in the note.

Receivables from non-exchange transactions

An analysis performed on the Receivables to align the systems and the receivables aging, led to errors being identified on the assessment rates debtors. As such the assesment rates receivable and surplus have been adjusted to correct this error.

It was also noted that the interest relating to the rates included under the Receivables from Exchange transactions, had not been separately disclosed, as required.

During the audit it was noted that some of the revenue relating to fines were not raised, as such the receivables relating to those fines were not raised. After a thorough investigation, some of these fines were provided for impairment.

These errors have been adjusted for in the comparitive and restatements have been performed in the note.

VAT

During the period it was noted that VAT in the prior period was not appropriately claimed. As such an adjustment had to be made to the VAT receivable, corresponding expenditure and trade payables which relate to such input VAT.

Cash and cash equivalents

During the period, an analysis of the Investments was performed which errors were identified between the bank statement balances and accounting of interest and withdrawals. As a result the investent reconciliation was revised, which led to errors identified being corrected in the prior period.

Property, plant and equipment

During the period, it was noted that some asset additions were erroneously excluded during, the creditors listing reconciliation and update. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

During the period, the opening balances of PPE items were restated based on a comprehensive review performed.

Liabilities

Payables from exchange transactions

During the period a reconciliation and update of the credit listing was performed, from which it was noted that some of the creditors were not accrued for and some of the creditors raised had been reversed. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

Leave provision

During period it was noted that some of the leave was not captured during the 2012/13 & 2013/14 financial period, as a result the leave pay provision and corresponding leave pay expenditure have been adjusted to correct this error.

39. Prior year adjustments (continued)

Finance leases

During the prior period audit, it was noted that the finance costs related to finance leases were incorrectly disclosed. As such, a revised calculation was performed taking into account all the finance leases schedules.The finance costs along with the corresponding finance lease liability and expenditure have been adjusted to correct this error.

Revenue from exchange transactions

Other Income

During the period a reconciliation and update of the credit listing was performed, from which it was noted that an erroneous debit had been processed under connection fees. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

I**nterest received from investments**

During the period, an analysis of the Investments was performed which errors were identified between the bank statement balances and accounting of interest and withdrawals. As a result the investent reconciliation was revised, which led to errors identified being corrected in the prior period.

Revenue from non-exchange transactions

Rates

During the period it was noted that there was error with the non-exchange revenue, where payments were made to the Assessment Rates VOTEs. As result of this, the errors identified have been reversed and allocated appropriately and corrected in the prior period.

Fines, Penalties and forteits

During the audit it was noted that some of the revenue relating to fines were not raised, as such the receivables relating to those fines were not raised. As such an adjustment was processed in order to correct the errors and account for ommitted fines.

Expenditure

Employee related costs

During period it was noted that some of the leave was not captured during the 2012/13 & 2013/14 financial period, as a result the leave pay provision and corresponding leave pay expenditure have been adjusted to correct this error.

Remuneration of councillors

During the period a reconciliation and update of the credit listing was performed, from which it was noted that some of the councillors' travel allowances were not accrued for. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

Administration

During the period a reconciliation and update of the credit listing was performed, from which it was noted that some of the administration expenditure were not accrued for and some reversed. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

Finance costs

During the prior period audit, it was noted that the finance costs related to finance leases were incorrectly accounted for. As such, a revised calculation was performed taking into account all the finance leases schedules. The finance costs along with the corresponding finance lease liability and expenditure have been adjusted to correct this error.

Notes to the Annual Financial Statements

	2015	2014
	R	R

39. Prior year adjustments (continued)

Lease rentals on operating lease

In order comply with the disclosure requirements of the current period, the lease rentals on operating lease were separately disclosed, which was previous included under general expenditure.

Debt Impairment

During the period, after the analysis of the receivables to align the finance system and the receivables aging, the debt impairment provision was revised, which led to errors being identified and corrected in the prior period.

Repairs and maintenance

During the period a reconciliation and update of the credit listing was performed, from which it was noted that some of the repairs and maintenance expenditure were not accrued for and some reversed. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

Bulk purchases

During the period a reconciliation and update of the credit listing was performed, from which it was noted that some of the repairs and maintenance expenditure were not accrued for and some reversed. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

General Expenses

During the period a reconciliation and update of the credit listing was performed, from which it was noted that some of the general expenditure were not accrued for and some reversed. As such an adjustment was processed in order to correct the errors and account for ommitted creditors.

In order comply with the disclosure requirements of the current period, the lease rentals on operating lease were separately disclosed, which was previous included under general expenditure.

Valuation of rateable properties

During the audit it was noted that the valuation values of the rateable properties disclosure had duplicates, as such the duplicates and other errors were removed to correct the disclosure.

Contingent asset

During the audit it was noted that contingent asset, was ommitted, relating to the municipality erroneously over paying it's employees due to implementing the requirements of the wage curve agreement which had been nullified. As such this disclosure has been amended to disclose this matter.

Irregular expenditure, Fruitless and wasteful expenditure, Unauthorised expenditure

During the period it was noted that the irregular expenditure and fruitless and wasteful expenditure had been over/undersated. The disclosure for these balances has been amended.

As a result of the financial errors noted above, the unauthorised expenditure for the has to be amended in order to appropriately present these movements.

Cashflow

As result of the errors note above the cashflow from operating, investing and financing activities had been revised.

Notes to the Annual Financial Statements

	2015 R	2014 R

39. Prior year adjustments (continued)

Statement of financial position

	2015 R	2014 R
Investment property		
Previously reported	-	111,287,677
Adjustment to opening balances	-	(37,034,277)
	-	**74,253,400**
Property, plant and equipment		
Previously reported	-	213,356,347
Correction of error on erroneously omitted payables.	-	1,361,735
Adjustment to opening balances	-	45,763,807
	-	**260,481,889**
Intangible Assets		
Previously reported	-	234,849
Adjustment to opening balances	-	(139,856)
	-	**94,993**
Current Assets		
Receivables from exchange transactions		
Previously reported	-	8,805,186
Correction of debt impairment	-	(311,597)
Correction of leave provision	-	(46,129)
Reallocation of VAT on Debtors per AGE	-	1,831,094
Correction of misallocated interest	-	(2,067,958)
Correction of other receivables	-	(136,959)
Reallocation of Debtors with credit balances	-	(244,952)
	-	**7,828,685**
Receivables from non-exchange transactions		
Previously reported	-	5,248,295
Correction of debt impairment	-	(3,633,155)
Correction of error in assessment rates	-	(1,907,049)
Correction of misallocated interest	-	2,067,958
Reallocation of VAT on Debtors per AGE	-	6,593
Raising traffic fines erroneously excluded.	-	42,200
Raising traffic fines provision for impairment	-	(42,200)
	-	**1,782,642**
VAT Receivable		
Previously reported	-	2,729,388
Correction of errors in VAT claimed	-	1,051,450
Reallocation of VAT on Debtors	-	(1,837,687)
	-	**1,943,151**
Cash and cash equivalents		
Previously reported	-	1,834,189
Correction of error investments	-	(1,942,544)
Correction of errors on interest received	-	717,422
	-	**609,067**

Notes to the Annual Financial Statements

	2015 R	2014 R

39. Prior year adjustments (continued)

Current Liabilities

Payables from exchange transactions

	2015 R	2014 R
Previously reported	-	17,393,484
Correction of error on erroneously omitted payables	-	3,401,051
Correction of error on leave pay provision	-	(32,617)
Correction of error of error in investments	-	(792,270)
Reallocation of Debtors with credit balances	-	(244,952)
	-	**19,724,696**

Finance lease obligation

	2015 R	2014 R
Previously reported	-	559,581
Correction of finance charges	-	(279,691)
	-	**279,890**

Non-Current Liabilities

Finance lease obligation

	2015 R	2014 R
Previously reported	-	1,309,258
Correction of finance charges	-	(301,120)
	-	**1,008,138**

Accumulated surplus

	2015 R	2014 R
Previously reported	-	332,377,016
Correction of receivables from non-exchange transactions	-	(1,991,449)
Correction of errors in payables	-	(8,648,242)
Correction of errors in finance leases interest	-	(288,828)
Correction of leave provision	-	34,848
Correction to investments	-	717,422
Correction to VAT	-	3,328,315
PPE: Adjustment to opening balances	-	45,763,807
Intangible Assets: Adjustment to opening balances	-	(139,856)
Investment Property Assets: Adjustment to opening balances	-	(37,034,277)
	-	**334,118,756**

Notes to the Annual Financial Statements

	2015 R	2014 R

39. Prior year adjustments (continued)

Statement of Financial Performance

Revenue from exchange transactions

Other income		
Previously reported	-	1,265,209
Correction of Connection fees	-	1,300
	-	**1,266,509**

Interest received		
Previously reported	-	4,772,192
Correction to investments	-	(370,852)
	-	**4,401,340**

Property rates		
Previously reported	-	16,431,138
Correction of errors in payables	-	(7,329)
	-	**16,423,809**

Fines		
Previously reported	-	11,200
Correction of fines not raised	-	42,200
	-	**53,400**

Expenditure

Employee related costs		
Previously reported	-	31,961,829
Correction of leave provision	-	(67,138)
	-	**31,894,691**

Remuneration of councillors		
Previously reported	-	3,237,067
Correction of errors in payables	-	1,245
	-	**3,238,312**

Administration		
Previously reported	-	605,955
Correction of errors in payables	-	(8,858)
	-	**597,097**

Finance costs		
Previously reported	-	2,342,365
Correction of errors in finance lease interest	-	(869,638)
	-	**1,472,727**

Debt impairment		
Previously reported	-	2,902,683
Correction of debt impairment	-	3,860,352
Correction of provision raised for fines	-	42,200

Notes to the Annual Financial Statements

	2015 R	2014 R
39. Prior year adjustments (continued)		
	-	**6,805,235**
Repairs and maintenance		
Previously reported	-	4,974,351
Correction of errors in payables	-	62,703
	-	**5,037,054**
Bulk purchases		
Previously reported	-	6,129,480
Correction of errors in payables	-	(420)
	-	**6,129,060**
Lease rentals on operating lease		
Previously reported	-	-
Reclassification from general expenses	-	114,434
Correction of errors in payables	-	(15,881)
	-	**98,553**
General Expenses		
Previously reported	-	28,439,502
Correction of errors in payables	-	3,903,860
Reclassification of lease rentals on operating lease	-	(114,434)
	-	**32,228,928**

Cash flow statement

	2015 R	2014 R
Cash flow from operating activities		
Previously reported	-	11,830,033
Corrections to operating activities balances	-	136,613
	-	**11,966,646**
Cash flow from investing activities		
Previously reported	-	(30,112,344)
Corrections to investing activities balances	-	(1,361,734)
	-	**(31,474,078)**

Disclosure

Property rates

	2015 R	2014 R
Valuations		
Previously reported	-	3,619,638,159
Commercial	-	24,668,734
Residential	-	(387,815)
Schools	-	71,320,000
Small holdings and farms	-	(129,750,628)
State	-	9,754,061
Unkown	-	775,118,505
Vacant	-	387,402,431
Place of worship	-	(6,246,500)
Municipal	-	(298,565,212)
	-	**4,452,951,735**

Notes to the Annual Financial Statements

	2015 R	2014 R

39. Prior year adjustments (continued)

Unauthorised expenditure		
Previously reported	-	16,868,254

Fruitless and wasteful expenditure		
Previously reported	-	7,317,479
Correction of errors noted affecting expenditure.	-	(284,860)
	-	**7,032,619**

Irregular expenditure		
Previously reported	-	115,660,894
Correction of errors noted affecting expenditure.	-	11,290,764
	-	**126,951,658**

40. Comparative figures

The Library subsidy comparative figures have been reclassified to better reflect the nature of the transactions. These changes to comparatives are not considered material.

Other Income		
Previously reported	957,241	1,266,509
Reclassification of Library Subsidy	-	(410,128)
Statement of Financial Performance		
Previously reported	40,905,995	37,574,645
Reclassification of Library Subsidy	-	410,128

41. Risk management

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by the finance department with the assistance of operating devisions, under policies approved by the accounting officer.

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

41. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of financial assets respresent the Municipality's maximum exposure to credit risk in relation to these assets.

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

Financial instrument	**2015**	**2014**
Trade and other receivables from exchange transactions	12,942,045	7,828,685
Receivables from non-exchange transactions	7,889,186	1,782,642
Cash and cash equivalents	20,856,860	609,067

Market risk

Market risk is the the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Municipality is exposed to market risk through interest rate risk.

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The Municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 12 to the annual financial statements.

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

Trade debtors in arrears are charged interest at a rate of 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 7 to the annual financial statements.

The sensitivity analysis below assess the exposure by the Municipality to floating interest rates. Assuming that those financial instruments affected remain unchanged for the full financial year and that all other methods and asumptions used remain unchanged, the impact of a 100 basis point change in the interest rate would result in an increase or decrease of R21 659 (2014: R21 659) in the net surplus for the period.

42. Going concern

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

43. Events after the reporting date

No events having financial implications are requiring disclosure in the annual financial statements occurred subsequent to 30 June 2015.

Notes to the Annual Financial Statements

	2015 R	2014 R

44. Unauthorised expenditure

Opening balance	23,350,696	6,943,240
Unauthorised expenditure for the year	45,090,429	16,407,456
Less: Amounts written off	(16,808,194)	-
	51,632,931	**23,350,696**

Incident - this is mainly due to inadequate budgeting and monitoring of expenditure.

45. Fruitless and wasteful expenditure

Opening balance	7,034,619	6,562,280
Fruitless and wasteful expenditure incurred in the current year	99,372	472,339
Less: Amounts written off	(7,017,962)	-
	116,029	**7,034,619**

Incident - this is mainly due to interest and penalties charged because of late payments of suppliers.

46. Irregular expenditure

Opening balance	126,951,658	115,660,894
Add: Irregular Expenditure - current year	4,525,997	11,290,764
Less: Amounts written off	(121,572,884)	-
	9,904,771	**126,951,658**

Details of irregular expenditure – current year

The irregular expenditure relates to goods and services which had not been procured in terms of supply chain management precripts during the year.

-

Details of irregular expenditure not recoverable (not condoned)

SCM processes not followed	9,904,771

47. 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 accounting officer and includes a note to the annual financial statements.

Deviation in terms of Clause 36(1)(a)	Mayor's Office	Technical and Community Services	Budget and Treasury Office	Strategic Department	Total
Clause 36(1)(a)(v) Impractical or impossible	3,858	330,233	394,352	93,119	821,562
Clause 36(1)(a)(ii) Single Provider	20,000	661,512	-	-	681,512
Clause 36(1)(a)(i) Emergency	-	126,564	-	-	126,564
	23,858	**1,118,309**	**394,352**	**93,119**	**1,629,638**

Notes to the Annual Financial Statements

	2015 R	2014 R

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2015 R	2014 R
Current year subscription / fee	806,214	462,000
Amount paid - current year	(227,714)	(225,000)
	578,500	**237,000**

Material losses

	2015 R	2014 R
Opening balance	2,048,920	761,949

Audit fees

	2015 R	2014 R
Opening balance	2,414,441	1,330,872
Current year subscription / fee	2,888,372	3,356,514
Amount paid - current year	(1,928,474)	(2,272,945)
	3,374,339	**2,414,441**

During the year the municipality entered into a repayment arrangement with the external auditors to repay long outstanding debts via instalments over a 24 month period until April 2016.

PAYE and UIF

	2015 R	2014 R
Current year subscription / fee	4,385,770	4,111,552
Amount paid - current year	(4,385,770)	(4,111,552)
	-	-

Pension and Medical Aid Deductions

	2015 R	2014 R
Current year subscription / fee	4,325,032	1,710,035
Amount paid - current year	(4,325,032)	(1,710,035)
	-	-

VAT

	2015 R	2014 R
VAT receivable	1,200,912	1,943,151

Councillors' arrear consumer accounts

There were no Councillors that had arrear accounts outstanding for more than 90 days at 30 June 2015. No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014.