CHRIS HANI
DISTRICT MUNICIPALITY

SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality Economic Entity
Consolidated Annual Financial Statements
for the year ended 30 June 2015

General Information

Nature of business and principal activities	Chris Hani District Municipality is a South African Category C Municipality (District Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) The municipality's operations are governed by: - Municipal Finance Management act 56 of 2003 - Municipal Structure Act 117 of 1998 - Municipal Systems Act 32 of 2000 and various other acts and regulations
Mayoral committee	
Executive Mayor	M.C. Koyo
Portfolio Heads	N.G. Xoseni: Speaker
	L. Nkwentsha - Gunuza: Chief Whip
	W.T Bikwana: Finance
	N.G. Magwashu: Health and Community Services
	S.D. Plata : Technical Services
	Z.R. Shweni : Integrated Planning and Econimic Development
	L.E. Noqha : SPU & HIV & AIDS Co-Ordinating Committee
	M.R. Xuma : Corporate Services
Councillors	V.A. Bovuka
	N. Goniwe
	M. Jentile
	L. Jiyose
	N. Makanda
	N. Nyukwana
	K. Vimbayo
	K. Nqiqhi
	M.N. Bula
	Z.C. Deliwe
	S.R.Dyanti
	F. Erasmus
	W. Gela
	D. Kalolo
	T. Kulashe
	S.Liwani
	K. Mdleleni
	Z. Madyolo
	P.P. Mandile
	S. Mbolo
	A.Z. Mdwayingana
	S. Myataza
	N.S. Ndlebe
	H. Nobongoza
	N.P. Nquma
	S. Ntakana
	N. Klaas
	N. Radzilani
	N. Roskruge
	R.W. Venske
Grading of local authority	Grade 4

General Information

Accounting Officer	M A Mene
Registered office	15 Bells Road Queenstown 5319
Postal address	Private Bag X7121 Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor General South Africa

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the economic entity 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 economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity 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 consolidated 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 economic entity’s cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The consolidated annual financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2015 and were signed on its behalf by:

M A Mene
Municipal Manager

Statement of Financial Position as at 30 June 2015

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2015	2014	2015	2014
Assets					
Current Assets					
Inventories	9	7,977,093	1,622,688	7,977,093	1,622,688
Operating lease asset	6	-	21,495	-	21,495
Receivables from non-exchange transactions	10	58,651,278	52,599,600	55,821,470	50,482,624
VAT receivable	11	80,894,423	26,685,825	80,894,423	26,685,825
Prepayments	8	25,822,304	25,236,190	25,822,304	25,236,190
Receivables from exchange transactions		639,744,643	-	639,744,643	-
Cash and cash equivalents	12	398,640,301	383,089,417	394,054,314	380,376,812
		1,211,730,042	**489,255,215**	**1,204,314,247**	**484,425,634**
Non-Current Assets					
Property, plant and equipment	3	3,767,473,247	3,277,451,970	3,767,212,694	3,277,151,638
Intangible assets	4	669,917	1,005,741	546,466	915,281
Non-current Investments	5	1,500,000	1,500,000	1,500,000	1,500,000
		3,769,643,164	**3,279,957,711**	**3,769,259,160**	**3,279,566,919**
Total Assets		**4,981,373,206**	**3,769,212,926**	**4,973,573,407**	**3,763,992,553**
Liabilities					
Current Liabilities					
Operating lease liability	6	14,011	-	14,011	-
Payables from exchange transactions	17	124,996,016	132,639,559	124,619,080	132,132,298
Payables from non-exchange transactions	18	-	1,217,152	-	-
VAT payable		2,277,513	1,854,214	-	-
Employee benefit obligation	7	9,746,097	6,759,070	9,746,097	6,759,070
Unspent conditional grants and receipts	14	45,868,018	44,034,001	44,804,288	42,770,843
Bank overdraft	12	42,058,626	17,619,856	42,058,626	17,619,856
		224,960,281	**204,123,852**	**221,242,102**	**199,282,067**
Non-Current Liabilities					
Employee benefit obligation	7	37,309,048	32,878,000	37,309,048	32,878,000
Total Liabilities		**262,269,329**	**237,001,852**	**258,551,150**	**232,160,067**
Net Assets		**4,719,103,877**	**3,532,211,074**	**4,715,022,257**	**3,531,832,486**
Net Assets					
Accumulated surplus	13	4,719,103,876	3,532,211,074	4,715,022,258	3,531,832,486

Statement of Financial Performance

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2015	2014	2015	2014
Revenue					
Revenue from exchange transactions					
Service charges		184,784,278	-	184,784,278	-
Rental of facilities and equipment	33	-	39,000	-	39,000
Other income	22	72,629,992	15,465,686	69,562,891	15,458,836
Interest received	28	26,424,534	26,108,351	26,116,489	25,983,684
Total revenue from exchange transactions		**283,838,804**	**41,613,037**	**280,463,658**	**41,481,520**
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	21	1,107,641,213	1,037,992,532	1,107,641,213	1,037,992,532
Total revenue	20	**1,391,480,017**	**1,079,605,569**	**1,388,104,871**	**1,079,474,052**
Expenditure					
Personnel	25	(214,237,775)	(137,142,799)	(207,851,825)	(134,214,848)
Remuneration of councillors	26	(9,913,419)	(7,331,479)	(9,913,419)	(7,331,479)
Depreciation and amortisation	30	(114,557,671)	(91,728,784)	(114,746,967)	(91,602,438)
Finance costs	31	(629,372)	(416,306)	(381,440)	(125,808)
Debt impairment	27	(78,356)	1,087,461	-	1,087,461
Repairs and maintenance		(12,972,406)	(2,476,898)	(12,915,589)	(2,474,248)
Bulk purchases	36	(14,344,034)	(13,322,406)	(14,344,034)	(13,322,406)
Contracted services	34	(13,160,725)	(9,197,339)	(13,160,725)	(9,197,339)
Grants and subsidies paid	35	(173,144,051)	(410,087,934)	(194,771,793)	(419,395,493)
General Expenses	23	(138,876,436)	(60,115,593)	(124,522,952)	(55,120,776)
Total expenditure		**(691,914,245)**	**(730,732,077)**	**(692,608,744)**	**(731,697,374)**
Operating surplus	24	**699,565,772**	**348,873,492**	**695,496,127**	**347,776,678**
Loss on disposal of assets and liabilities		(3,473,982)	-	(3,473,982)	-
Loss on foreign exchange		-	(1,135,510)	-	(1,135,510)
Fair value adjustments	29	-	6,025,400	-	6,025,400
Surplus on distribution of non-cash assets to owners		468,342,250	-	468,342,250	-
		464,868,268	**4,889,890**	**464,868,268**	**4,889,890**
Surplus for the year		**1,164,434,040**	**353,763,382**	**1,160,364,395**	**352,666,568**

Consolidated Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Opening balance as previously reported	3,200,043,491	3,200,043,491
Adjustments		
Prior year adjustments	25,016,477	25,016,477
Balance at 01 July 2013 as restated*	**3,175,027,014**	**3,175,027,014**
Changes in net assets		
Surplus for the year	367,169,820	367,169,820
Total changes	367,169,820	367,169,820
Balance at 01 July 2012 as previously reported	3,542,196,834	3,542,196,834
Adjustments		
Prior year adjustments	(1,267,063)	(1,267,063)
Balance at 01 July 2014 as restated*	**3,540,929,771**	**3,540,929,771**
Changes in net assets		
Surplus for the year	1,164,434,040	1,164,434,040
Total changes	1,164,434,040	1,164,434,040
Balance at 30 June 2015	**4,705,363,811**	**4,705,363,811**
Note(s)		

Figures in Rand	Accumulated surplus	Total net assets
Controlling entity		
Opening balance as previously reported	3,200,758,129	3,200,758,129
Adjustments		
Prior year adjustments	25,015,089	25,015,089
Balance at 01 July 2013 as restated*	**3,175,743,040**	**3,175,743,040**
Changes in net assets		
Surplus for the year	366,073,006	366,073,006
Total changes	366,073,006	366,073,006
Opening balance as previously reported	3,541,816,046	3,541,816,046
Balance at 01 July 2014 as previously reported*	**3,541,816,046**	**3,541,816,046**
Changes in net assets		
Surplus for the year	1,160,733,210	1,160,733,210
Total changes	1,160,733,210	1,160,733,210
Balance at 30 June 2015	**4,702,549,256**	**4,702,549,256**
Note(s)		

Statement of Cash Flows

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2015	2014	2015	2014
Cash flows from operating activities					
Receipts					
Sale of goods and services		194,479,121	32,457,534	184,784,278	32,450,684
Grants		1,121,572,260	1,036,354,192	1,106,572,260	1,027,046,663
Interest income		26,424,534	26,108,351	26,116,489	25,983,684
		1,342,475,915	1,094,920,077	1,317,473,027	1,085,481,031
Payments					
Employee costs		(224,294,151)	(144,801,932)	(217,765,244)	(141,546,326)
Suppliers		(729,496,592)	(523,020,150)	(1,144,541,534)	(519,938,780)
Finance costs		(629,372)	(416,306)	(381,440)	(125,808)
		(954,420,115)	(668,238,388)	(1,362,688,218)	(661,610,914)
Net cash flows from operating activities	37	**388,055,800**	**426,681,689**	**(45,215,191)**	**423,870,117**
Cash flows from investing activities					
Purchase of property, plant and equipment	3	(803,801,145)	(331,072,607)	(803,709,031)	(330,964,991)
Purchase of other intangible assets	4	(80,618)	(277,539)	-	(193,484)
Movements in investments		(234,651,368)	(12,310,870)	(234,651,368)	(12,310,870)
Net cash flows from investing activities		**(343,660,652)**	**(459,320,211)**	**(1,038,360,399)**	**(343,469,345)**
Cash flows from financing activities					
Net increase/(decrease) in cash and cash equivalents		**44,395,148**	**(38,191,229)**	**(1,083,575,590)**	**80,400,772**
Cash and cash equivalents at the beginning of the year		365,471,761	192,034,546	362,756,956	191,648,293
Cash and cash equivalents at the end of the year	12	**409,866,909**	**153,843,317**	**(720,818,634)**	**272,049,065**

Consolidated Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Economic entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	571,705,000	(369,553,000)	**202,152,000**	184,784,278	**(17,367,722)**	
Rental of facilities and equipment	-	514,000	**514,000**	-	**(514,000)**	
Other income	482,000	60,893,000	**61,375,000**	69,562,891	**8,187,891**	
Interest received - investment	18,019,000	8,334,000	**26,353,000**	26,116,489	**(236,511)**	
Total revenue from exchange transactions	**590,206,000**	**(299,812,000)**	**290,394,000**	**280,463,658**	**(9,930,342)**	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants & subsidies	445,064,850	73,351,526	**518,416,376**	658,720,209	**140,303,833**	
Total revenue	**1,035,270,850**	**(226,460,474)**	**808,810,376**	**939,183,867**	**130,373,491**	
Expenditure						
Personnel	(223,849,787)	27,081,000	**(196,768,787)**	(207,851,825)	**(11,083,038)**	
Remuneration of councillors	(9,633,000)	(497,000)	**(10,130,000)**	(9,913,419)	**216,581**	
Depreciation and amortisation	(95,400,000)	(9,450,000)	**(104,850,000)**	(114,378,151)	**(9,528,151)**	
Finance costs	(631,000)	(134,563)	**(765,563)**	(381,440)	**384,123**	
Debt impairment	(228,682,000)	106,588,000	**(122,094,000)**	-	**122,094,000**	
Repairs and maintenance	(30,338,000)	678,000	**(29,660,000)**	(12,915,589)	**16,744,411**	
Bulk purchases	(10,762,000)	(13,638,000)	**(24,400,000)**	(14,344,034)	**10,055,966**	
Contracted Services	(18,375,000)	1,873,000	**(16,502,000)**	(13,160,725)	**3,341,275**	
Grants and subsidies paid	(171,171,795)	130,051,397	**(41,120,398)**	(194,771,793)	**(153,651,395)**	
General Expenses	(400,699,000)	7,851,697	**(392,847,303)**	(124,522,952)	**268,324,351**	
Total expenditure	**(1,189,541,582)**	**250,403,531**	**(939,138,051)**	**(692,239,928)**	**246,898,123**	
Operating surplus	**(154,270,732)**	**23,943,057**	**(130,327,675)**	**246,943,939**	**377,271,614**	
Loss on disposal of assets and liabilities	-	-	**-**	(3,473,982)	**(3,473,982)**	
Surplus on distribution of non-cash assets to owners	-	-	**-**	468,342,250	**468,342,250**	
	-	**-**	**-**	**464,868,268**	**464,868,268**	
Surplus before taxation	**(154,270,732)**	**23,943,057**	**(130,327,675)**	**711,812,207**	**842,139,882**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(154,270,732)**	**23,943,057**	**(130,327,675)**	**711,812,207**	**842,139,882**	

Consolidated Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Controlling entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	571,705,000	(369,553,000)	**202,152,000**	184,784,278	**(17,367,722)**	1
Rental of facilities and equipment	-	514,000	**514,000**	-	**(514,000)**	2
Other income	482,000	60,893,000	**61,375,000**	69,562,891	**8,187,891**	3
Interest received - investment	18,019,000	8,334,000	**26,353,000**	26,116,489	**(236,511)**	4
Total revenue from exchange transactions	**590,206,000**	**(299,812,000)**	**290,394,000**	**280,463,658**	**(9,930,342)**	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants & subsidies	445,064,850	73,351,526	**518,416,376**	658,720,209	**140,303,833**	5
Total revenue	**1,035,270,850**	**(226,460,474)**	**808,810,376**	**939,183,867**	**130,373,491**	
Expenditure						
Personnel	(223,849,787)	27,081,000	**(196,768,787)**	(207,851,825)	**(11,083,038)**	6
Remuneration of councillors	(9,633,000)	(497,000)	**(10,130,000)**	(9,913,419)	**216,581**	7
Depreciation and amortisation	(95,400,000)	(9,450,000)	**(104,850,000)**	(114,746,967)	**(9,896,967)**	8
Impairment loss/ Reversal of impairments	(228,682,000)	106,588,000	**(122,094,000)**	-	**122,094,000**	
Finance costs	(631,000)	(134,563)	**(765,563)**	(381,440)	**384,123**	9
Repairs and maintenance	(30,338,000)	678,000	**(29,660,000)**	(12,915,589)	**16,744,411**	11
Bulk purchases	(10,762,000)	(13,638,000)	**(24,400,000)**	(14,344,034)	**10,055,966**	12
Contracted Services	(18,375,000)	1,873,000	**(16,502,000)**	(13,160,725)	**3,341,275**	13
Grants and subsidies paid	(171,171,795)	130,051,397	**(41,120,398)**	(194,771,793)	**(153,651,395)**	14
General Expenses	(400,699,000)	7,851,697	**(392,847,303)**	(124,522,952)	**268,324,351**	15
Total expenditure	**(1,189,541,582)**	**250,403,531**	**(939,138,051)**	**(692,608,744)**	**246,529,307**	
Operating surplus	**(154,270,732)**	**23,943,057**	**(130,327,675)**	**246,575,123**	**376,902,798**	
Loss on disposal of assets and liabilities	-	-	**-**	(3,473,982)	**(3,473,982)**	
Surplus on distribution of non-cash assets to owners	-	-	**-**	468,342,250	**468,342,250**	
	-	**-**	**-**	**464,868,268**	**464,868,268**	
Surplus before taxation	**(154,270,732)**	**23,943,057**	**(130,327,675)**	**711,443,391**	**841,771,066**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(154,270,732)**	**23,943,057**	**(130,327,675)**	**711,443,391**	**841,771,066**	

Refer to note 48 detailing explanations for variances for the controlling entity

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Consolidation

Basis of consolidation

Consolidated financial statements are the consolidated annual financial statements of the economic entity presented as those of a single entity.

The consolidated annual financial statements incorporate the consolidated annual financial statements of the controlling entity.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

An investment in an entity is accounted for in accordance with the Standards of GRAP on Financial Instruments from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as the fair value on initial recognition of a financial asset in accordance with the Standards of GRAP on Financial Instruments.

The consolidated annual financial statements of the controlling entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

When the reporting dates of the controlling entity and a controlled entity are different, the controlled entity prepares, for consolidation purposes, additional consolidated annual financial statements as of the same date as the controlling entity unless it is impracticable to do so. When the consolidated annual financial statements of a controlled entity used in the preparation of consolidated consolidated annual financial statements are prepared as of a reporting date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's consolidated annual financial statements. In any case, the difference between the reporting date of the controlled entity and that of the controlling entity shall be no more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated 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 consolidated annual financial statements. Significant judgements include:

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the economic entity 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 the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of waste and water network and other assets

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 economic entity 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 economic entity 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 7.

Effective interest rate

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

Allowance for doubtful debts

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

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

Item	**Average useful life**
Buildings	
• Improvements	5 - 30 years
Plant and Equipment	2 - 15 years
Furniture and fixtures	3 - 15 years
Motor vehicles	4 - 15 years
Office equipment	3 - 15 years
IT equipment	3 - 10 years
Infrastructure	
• Roads and Paving	3 - 100 years
• Security measures	7 - 25 years
• Sewerage	7 - 60 years
• Water	5 - 100 years
Community	
• Community facilities	5 - 30 years
• Recreational facilities	10 - 30 years
Emergency equipment	3 - 10 years
Bins and containers	5 - 15 years
Specialised vehicles	10 - 15 years

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

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

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

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

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

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

Accounting Policies

1.5 Intangible assets

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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

1.6 Non-current Investments

1.7 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

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

A financial asset is:

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

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

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

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

Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.7 Financial instruments (continued)

Classification

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

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

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.7 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 economic entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

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

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

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

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

Gains and losses

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

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

Accounting Policies

1.7 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.7 Financial instruments (continued)

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

Presentation

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

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

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

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

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

1.8 Leases

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

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

Finance leases - lessor

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.9 Inventories

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

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

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

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

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

Current replacement cost is the cost the economic entity 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 economic entity.

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.

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

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

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

Irrespective of whether there is any indication of impairment, the economic entity 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 economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

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

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

Discount rate

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

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The economic entity 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.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the economic entity 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.

Accounting Policies

1.11 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 economic entity; or
(b) the number of production or similar units expected to be obtained from the asset by the economic entity.

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

Identification

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

The economic entity 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 economic entity estimates the recoverable service amount of the asset.

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity 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.

Accounting Policies

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

Reversal of an impairment loss

The economic entity 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 economic entity 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.

1.12 Share capital / contributed capital

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

1.13 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

Other post retirement obligations

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

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

1.14 Provisions and contingencies

Provisions are recognised when:

- the economic entity 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.

Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

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

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

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

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

1.14 Provisions and contingencies (continued)

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

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

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

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

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

1.15 Revenue from exchange transactions

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

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

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

1.15 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the economic entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the economic entity 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 economic entity; 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 economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

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

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

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

1.16 Revenue from non-exchange transactions

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

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

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

1.16 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.16 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 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.

1.21 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.

Accounting Policies

1.22 Irregular expenditure

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

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

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

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

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

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

1.23 Use of estimates

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

1.24 Internal reserves

Capital replacement reserve (CRR)

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

Accounting Policies

1.24 Internal reserves (continued)

Government grant reserve

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

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

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

Donations and public contributions reserve

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

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

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 Conditional grants and receipts

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

1.27 Budget information

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

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

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

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

The consolidated annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

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

1.27 Budget information (continued)

Comparative information is not required.

1.28 Related parties

The economic entity 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 economic entity, including those charged with the governance of the economic entity 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 economic entity.

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

1.29 Value Added Tax

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

1.30 Capital Commitments

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 105: Transfers of functions between entities under common control

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

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

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

The economic entity has adopted the standard for the first time in the 2015 consolidated annual financial statements.

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

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 18: Segment Reporting

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

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

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

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

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

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

The economic entity has adopted the standard for the first time in the 2015 consolidated annual financial statements.

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

GRAP 107: Mergers

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

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

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

The economic entity has adopted the standard for the first time in the 2015 consolidated annual financial statements.

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

GRAP 20: Related parties

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

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

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

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

The standard elaborates on the definitions and identification of:

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

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

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

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

The economic entity has adopted the standard for the first time in the 2015 consolidated annual financial statements.

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

GRAP32: Service Concession Arrangements: Grantor

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

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

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

2.3 Standards and interpretations not yet effective or relevant

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

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

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

Economic entity

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	57,855,600	(4,402,722)	53,452,878	56,655,600	(3,397,130)	53,258,470
Infrastructure	2,396,729,019	(402,067,239)	1,994,661,780	2,325,586,124	(318,381,361)	2,007,204,763
Other property, plant and equipment	75,444,888	(20,093,804)	55,351,084	68,967,019	(15,186,519)	53,780,500
Work in progress	1,173,986,229	-	1,173,986,229	771,737,991	-	771,737,991
Total	**3,704,015,736**	**(426,563,765)**	**3,277,451,971**	**3,222,946,734**	**(336,965,010)**	**2,885,981,724**

Controlling entity

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	57,855,600	(526,861,967)	(469,006,367)	57,855,600	(4,402,722)	53,452,878
Infrastructure	2,919,097,118	12,495,259	2,931,592,377	2,396,729,019	(402,067,240)	1,994,661,779
Other property, plant and equipment	82,140,065	(27,608,524)	54,531,541	74,980,563	(19,929,811)	55,050,752
Work in progress	1,250,095,143	-	1,250,095,143	1,173,986,229	-	1,173,986,229
Total	**4,309,187,926**	**(541,975,232)**	**3,767,212,694**	**3,703,551,411**	**(426,399,773)**	**3,277,151,638**

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2015

	Opening balance	Additions	Disposals (cost)	Disposals (accumulated depreciation)	Fair value assets - cost as at 01 July 2013	Depreciation	Total
Land and Buildings	53,258,470	1,200,000	-	-	-	(1,005,592)	53,452,878
Infrastructure	2,007,204,763	71,142,895	-	-	-	(83,685,878)	1,994,661,780
Other property, plant and equipment	53,780,500	3,433,130	(2,980,662)	1,828,469	6,025,400	(6,735,754)	55,351,083
Work in progress	771,737,991	402,248,238	-	-	-	-	1,173,986,229
	2,885,981,724	**478,024,263**	**(2,980,662)**	**1,828,469**	**6,025,400**	**(91,427,224)**	**3,277,451,970**

Reconciliation of property, plant and equipment - Economic entity - 2014

	Opening balance	Additions	Fair value assets	Depreciation	Total
Land and Buildings	53,970,294	-	-	(711,824)	53,258,470
Infrastructure	2,049,034,757	40,211,521	-	(82,041,515)	2,007,204,763
Other property, plant and equipment	53,951,020	1,846,504	6,331,231	(8,348,255)	53,780,500
Work in progress	587,718,772	184,019,219	-	-	771,737,991
	2,744,674,843	**226,077,244**	**6,331,231**	**(91,101,594)**	**2,885,981,724**

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2015

	Opening balance	Additions	Assets still in use	Disposals (cost)	Transfers	Depreciation	Total
Land and Buildings	53,452,878	-	-	-	(522,368,099)	(91,146)	(469,006,367)
Infrastructure	1,994,661,779	-	-	-	1,044,736,198	(107,805,600)	2,931,592,377
Other property, plant and equipment	55,050,752	8,979,050	607,521	(3,473,982)	-	(6,112,589)	55,050,752
Work in progress	1,173,986,229	522,368,099	-	-	(522,368,099)	-	1,173,986,229
	3,277,151,638	**531,347,149**	**607,521**	**(3,473,982)**	**-**	**(114,009,335)**	**3,691,622,991**

Reconciliation of property, plant and equipment - Controlling entity - 2014

	Opening balance	Additions	Disposals (cost)	Fair value assets (cost as at 01 July 2012)	Disposals (Accumulated Depreciation)	Depreciation	Total
Land and Buildings	53,258,470	1,200,000	-	-	-	(1,005,592)	53,452,878
Infrastructure	2,007,204,763	71,142,894	-	-	-	(83,685,878)	1,994,661,779
Other property, plant and equipment	53,465,631	3,325,515	(2,953,929)	6,025,400	1,818,419	(6,630,284)	55,050,752
Work in progress	771,737,991	402,248,238	-	-	-	-	1,173,986,229
	2,885,666,855	**477,916,647**	**(2,953,929)**	**6,025,400**	**1,818,419**	**(91,321,754)**	**3,277,151,638**

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

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

4. Intangible assets

Economic entity	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,566,302	(2,559,749)	1,006,553	3,288,763	(1,894,863)	1,393,900

Controlling entity	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,452,611	(2,537,329)	915,282	3,452,611	(2,537,330)	915,281

Reconciliation of intangible assets - Economic entity - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,393,900	277,539	(664,886)	1,006,553

Reconciliation of intangible assets - Economic entity - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,394,263	274,102	(274,465)	1,393,900

Reconciliation of intangible assets - Controlling entity - 2015

	Opening balance	Difference	Total
Computer software, other	915,281	**1**	915,282

Reconciliation of intangible assets - Controlling entity - 2014

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,366,619	193,484	(644,822)	915,281

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

5. Non-current Investments

Name of company	Held by	% holding 2015	% holding 2014	Carrying amount 2015	Carrying amount 2014
Chris Hani Development Agency	Chris Hani District Municipality	100.00 %	100.00 %	1,500,000	1,500,000

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

Chris Hani Development Agency

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

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

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

6. Operating lease liabilities/payables

Current assets	-	-	-	21,495
Current liabilities	-	-	(14,011)	-
	-	**-**	**(14,011)**	**21,495**

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

Balance at the beginning of the year	21,495	(46,614)	21,495	(46,614)
Operating Lease expenses recorded	2,552,092	1,442,251	2,552,092	1,442,251
Operating Lease payments effected	(2,587,598)	(1,374,982)	(2,587,598)	(1,374,142)
	(14,011)	**20,655**	**(14,011)**	**21,495**

7. Employee benefit obligations

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

Carrying value				
Post Retirement Medical Obligations	(27,957,000)	(29,047,000)	(32,216,006)	(27,957,000)
Long Service Awards	(7,672,000)	(5,876,000)	(9,713,612)	(7,672,000)
Staff Bonus Accrual	(3,078,512)	(2,784,044)	(4,287,478)	(3,078,512)
Performance Bonus provision	(929,558)	(647,927)	(838,049)	(929,558)
	(39,637,070)	**(38,354,971)**	**(47,055,145)**	**(39,637,070)**

Non-current liabilities	(32,878,000)	(33,405,000)	(37,309,048)	(32,878,000)
Current liabilities	(6,759,070)	(4,949,971)	(9,746,097)	(6,759,070)
	(39,637,070)	**(38,354,971)**	**(47,055,145)**	**(39,637,070)**

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

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

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

7. Employee benefit obligations (continued)

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

Opening balance	29,047,000	26,169,074	31,568,926	29,047,000
Benefits paid	(1,306,000)	(950,000)	(1,418,000)	(1,306,000)
Net expense recognised in the statement of financial performance	216,000	3,827,926	216,000	3,827,926
	27,957,000	**29,047,000**	**30,366,926**	**31,568,926**

Net expense recognised in the statement of financial performance

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

Calculation of actuarial gains and losses

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

Key assumptions used

Assumptions used at the reporting date:

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

Other assumptions

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

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

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

	2015 R	2014 R	2013 R	2012 R	2011 R
Defined benefit obligation	27,957,000	26,169,074	21,766,827	22,273,109	18,460,067
Surplus (deficit)	27,957,000	26,169,074	21,766,827	22,273,109	18,460,067
Experience adjustments on plan liabilities	3,847,353	5,329,200	(1,481,847)	2,610,116	1,084,656

7. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the economic entity to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The economic entity is under no obligation to cover any unfunded benefits.

Cape joint pension fund

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

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

Government Employees Pension Fund (GEPF)

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

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

South African Local Authorities Pension Fund (SALA)

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

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

Cape Joint Retirement Fund

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

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

SAMWU (South African Municipal Workers Union) National Provident Fund

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

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

8. Prepayments

Payments made in adavance				
Payments made in advance	25,236,190	27,066,214	25,822,304	25,236,190

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

9. Inventories

Inventories 1	-	-	493,900	-
Consumable stores	1,186,585	665,326	603,100	1,186,585
Maintenance materials	381,729	180,365	1,164,476	381,729
Spare parts	54,374	27,537	5,715,617	54,374
	1,622,688	**873,228**	**7,977,093**	**1,622,688**

10. Sundry Receivables from non-exchange transactions

Sundry receivables	35,821,916	9,170,417	35,821,916	9,170,417
Sundry deposits	3,279,605	2,989,533	3,279,605	2,989,533
Debt impairment	-	(745,476)	-	(745,476)
Government grants and subsidies	13,404,914	37,258,378	13,404,914	37,258,378
Water Services Debtors	2,980,242	1,630,658	2,980,242	1,630,658
Sundry debtors	334,793	179,114	334,793	179,114
	55,821,470	**50,482,624**	**55,821,470**	**50,482,624**

Credit quality of receivables from non-exchange transactions

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

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	52,599,601	191,977,766	50,749,263	190,956,767

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

Opening balance	745,476	1,832,937	745,476	1,832,937
Provision for impairment	-	(1,087,461)	-	(1,087,461)
	745,476	**745,476**	**745,476**	**745,476**

11. VAT receivable

VAT	80,894,423	26,685,825	80,894,423	26,685,825

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,202	4,200	2,200	2,200
Bank balances	9,865,067	134,977,953	-	7,155,264
Short-term deposits	244,175,900	57,051,012	394,052,114	373,219,348
Bank overdraft	(17,619,856)	-	(42,058,626)	(17,619,856)
	236,428,313	**192,033,165**	**351,995,688**	**362,756,956**

Current assets	254,048,169	192,033,290	394,054,314	380,376,812
Current liabilities	(17,619,856)	-	(42,058,626)	(17,619,856)
	236,428,313	**192,033,290**	**351,995,688**	**362,756,956**

12. Cash and cash equivalents (continued)

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

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

The economic entity 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
First National Bank - Current Account - 62002510693	7,155,264	152,858,977	(8,934,177)	(10,464,592)	134,595,081	(8,736,377)
First National Bank - Call Account - 62004499481	244,175,900	57,051,012	238,958,573	244,175,900	57,051,012	238,958,573
First National Bank - Current Account - 62363654156	98,920	135,637	-	98,920	135,637	-
First National Bank - Commercial Money Market Account - 62378942918	182,672	90,341	-	182,672	90,341	-
First National Bank - Current Account - 623960885899	970,702	157,019	-	970,702	157,019	-
First National Bank - Current Account - 62476009339	1,457,633	-	-	1,457,633	-	-
First National Bank - Credit Account - 8812712910085001	(125)	-	-	(125)	-	-
Total	**254,040,966**	**210,292,986**	**230,024,396**	**236,421,110**	**192,029,090**	**230,222,196**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

13. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - Economic entity - 2015

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	-	2,690,061,121
Surplus	-	-	-	853,404,156	853,404,156
	50,896,894	**2,637,664,227**	**1,500,000**	**853,404,156**	**3,543,465,277**

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

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	-	2,690,061,121
Surplus	-	-	-	485,330,032	485,330,032
	50,896,894	**2,637,664,227**	**1,500,000**	**485,330,032**	**3,175,391,153**

Ring-fenced internal funds and reserves within accumulated surplus - Controlling entity - 2015

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

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

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

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

14. Unspent conditional grants and receipts

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

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

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

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

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

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

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

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

15. Long service awards

Reconciliation of long service awards - Economic entity - 2014

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

Reconciliation of long service awards - Economic entity - 2014

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

Reconciliation of long service awards - Controlling entity - 2015

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

Reconciliation of long service awards - Controlling entity - 2014

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

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

Long service awards

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

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

At year end 390 (2012: 385) employees were eligible for Long- service awards.

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

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

Discount rate			7.40%	6.12%
Consumer price inflation			5.66%	4.97%
Normal salary increase rate			6.66%	5.97%
Net effective discount rate			0.69%	0.15%

Changes in the present value of the defined benefit obligation are as follows				
Opening balance	5,876,000	4,079,101	5,876,000	4,079,101
Current service cost	958,000	992,886	958,000	992,886
Interest cost	441,000	226,941	441,000	226,941

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

15. Long service awards (continued)

Benefits paid	(394,000)	(775,691)	(394,000)	775,691
Actuarial (gains) losses	791,000	1,352,763	791,000	1,352,763
	7,672,000	**5,876,000**	**7,672,000**	**7,427,382**

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

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

Net expense recognised in the statement of financial performance

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

16. Current employee benefits

Current Employee Benefits

Staff bonus accrual	3,078,512	2,784,044	3,078,512	2,784,044
Performance bonus provision	929,558	647,927	929,558	647,927
Current portion - Post retirement benefits	1,418,000	1,075,000	1,418,000	1,075,000
Current portion - Long service awards	1,333,000	443,000	1,333,000	443,000
	6,759,070	**4,949,971**	**6,759,070**	**4,949,971**

17. Payables from exchange transactions

Trade payables	46,299,831	30,560,125	54,822,698	46,299,901
Payments received in advanced	578,513	440,576	7,809,294	578,513
Study Loans	-	17,678	-	-
Retentions	9,795,970	8,164,048	15,070,565	6,373,091
Accrued leave pay	6,581,690	5,555,352	9,443,306	6,581,690
Deposits received	8,335	8,335	8,335	8,335
Sundry creditors	61,176,195	145,538,917	37,419,847	54,609,413
Other creditors	-	4,569,919	-	-
Emalahleni Local Municipality - Water Services	-	2,865,883	-	590,957
Inkwanca Local Municipality- Water Services	-	-	-	1,453,160
Lukhanji Local Municipality - Water Services	-	-	-	7,866,931
Sakhisizwe Local Municipality - Water services	-	-	-	951,902
Tsolwana Local Municipality -Water Services	-	-	-	220,447
Engcobo Local Municipality - Water services	-	-	-	2,649,692
Inxuba Yethemba Local Municipality - Water Services	-	-	-	1,046,423
Intsika Yethu Local Municipality - Water Services	-	-	-	2,901,843
Water consumer deposits	-	-	45,035	-
	124,440,534	**197,720,833**	**124,619,080**	**132,132,298**

Fair value of trade and other payables

Trade payables	124,440,534	197,720,833	122,083,533	196,613,442

18. Taxes and transfers payable (non-exchange)

The amount of liabilities forgiven is R - (2014: R -).

19. Financial instruments disclosure

Categories of financial instruments

Economic entity - 2015

Financial assets

	At fair value	At amortised cost	Total
Investments	129,043,449	-	129,043,449
Other receivables from non-exchange transactions	-	52,599,601	52,599,601
Prepayments	-	25,236,190	25,236,190
Cash and cash equivalents	254,048,169	-	254,048,169
	383,091,618	**77,835,791**	**460,927,409**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	124,440,534	124,440,534
Retirement benefit obligation	39,637,070	39,637,070
Bank overdraft	17,619,856	17,619,856
Trade and other payables from non-exchange transactions	1,217,152	1,217,152
	182,914,612	**182,914,612**

Economic entity - 2014

Financial assets

	At fair value	At amortised cost	Total
Investments	116,732,579	-	116,732,579
Other receivables from non-exchange transactions	-	191,977,640	191,977,640
Prepayments	-	27,066,214	27,066,214
Cash and cash equivalents	192,033,290	-	192,033,290
	308,765,869	**219,043,854**	**527,809,723**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	197,720,833	197,720,833
Retirement benefit obligation	38,354,971	38,354,971
Trade and other payables from non-exchange transactions	1,357,019	1,357,019
	237,432,823	**237,432,823**

. Financial instruments disclosure (continued)

Controlling entity - 2015

Financial assets

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

Financial liabilities

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

Controlling entity - 2014

Financial assets

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

Financial liabilities

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

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

20. Revenue

Service charges	-	-	184,784,278	-
Rental of facilities and equipment	39,000	94,250	-	39,000
Other income	16,728,845	13,307,495	15,458,837	12,231,300
Interest received - investment	26,108,351	19,074,982	26,116,489	25,983,684
Government grants & subsidies	1,037,992,532	974,677,251	1,107,641,213	974,677,251
	1,080,868,728	**1,007,153,978**	**1,079,474,053**	**1,006,052,043**

The amount included in revenue arising from exchanges of goods or services are as follows:				
Service charges	-	-	184,784,278	-
Rental of facilities and equipment	39,000	94,250	-	39,000
Other income	16,278,845	13,507,495	15,458,837	12,231,300
Interest received - investment	26,108,351	19,074,982	26,116,489	25,983,684
	42,876,196	**32,676,727**	**41,481,521**	**31,374,792**

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

Transfer revenue				
Government grants & subsidies	1,037,992,532	974,677,251	1,107,641,213	974,677,251

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014
21. Government grants and subsidies				
Revenue from Unspent conditional grants				
National : Finance Management Grant	1,513,014	1,528,157	1,499,999	1,513,014
National: Municipal Infrastructure Grant	375,613,000	346,428,658	317,587,078	375,613,000
National: EPWP	8,445,000	9,835,001	9,124,000	8,445,000
National: Department of Transport - Rural Road Asset Management	2,626,319	961,072	2,979,000	2,626,319
National : Department of Water Affairs and Forestry - Water Services Operating Grant	15,481,487	12,566,513	11,934,628	15,841,487
Provincial : Treasury Grant	901,890	991,245	-	-
National : Sport and Development	29,129,738	-	-	-
National : Municipal Systems Infrastructure Grant	4,793,442	-	934,000	901,890
Government grant (operating) 13	-	-	48,528,000	29,372,000
Government grant (operating) 14	-	-	4,000,001	4,511,000
	438,863,890	372,310,646	396,586,706	438,823,710
Revenue from Unspent conditional agency fees				
National : Department of Public Works	-	3,886,926	-	-
National : Sport and Development	-	393,500	-	-
National : Department of Agriculture	2,261,779	9,433,079	-	2,261,779
National : Department of Economic Affairs and Trade	1,348,736	1,201,264	1,713,557	1,348,736
Provincial : Department of Housing, Local Government and Traditional Affairs	2,896,826	3,456,168	-	2,896,826
Provincial : Department of Transport	-	1,776,000	-	-
Provincial: Department of Economic Affairs	2,459,318	-	-	2,459,318
DHS Unblocking	-	-	9,347,328	-
	8,966,659	24,041,880	11,060,885	8,966,659
	447,830,549	**396,352,526**	**407,647,591**	**447,790,369**
Revenue from other Unconditional Grants and Subsidies				
Equitable Share	384,900,000	359,060,000	413,744,000	384,900,000
National: Department of Water Affairs and Forestry - RBIG	156,363,083	185,576,717	242,260,785	156,363,083
National: Department of Water Affairs and Forestry - ACIP	7,419,855	5,126,745	5,351,286	7,419,855
Subsidy: Eastern Cape Aids Council	-	60,000	-	-
Subsidy: LG SETA	-	-	-	32,638
Provincial: ACIP - Capacity Building	300,000	-	129,850	300,000
Provincial : Road Subsidies	32,387,692	32,324,833	-	32,387,692
Provincial : Department of Health - EHP	8,798,894	-	6,386,077	8,798,894
Prvincial: Transport Roadworks	-	-	31,052,672	-
ACIP	-	-	1,068,953	-
	590,169,524	**582,148,295**	**699,993,623**	**590,202,162**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	447,790,369	392,457,583	407,647,591	447,790,369
Unconditional grants and subsidies received	590,202,162	582,219,667	699,993,623	590,202,162
	1,037,992,531	**974,677,250**	**1,107,641,214**	**1,037,992,531**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

22. Other income

Private telephone calls	16,797	39,649	-	-
Private telephone calls	86,100	92,880	-	16,797
Tender documents	107,274	94,686	355,050	86,100
Insurance claims	686,504	48,537	-	-
Commission on Collections	13,677,674	11,934,309	543,114	107,274
Insurance claims	77,000	-	44,934	686,504
VAT on conditional grants	1,077,238	1,075,914	68,607,793	13,671,625
Skills development fund	1,000,258	21,239	12,000	77,000
Other Revenue	-	-	-	813,536
	16,728,845	**13,307,214**	**69,562,891**	**15,458,836**

23. General expenses

Advertising	1,619,382	1,455,172	1,426,064	1,619,382
Auditors remuneration	5,178,713	4,805,866	5,214,677	5,178,713
Computer expenses	994,235	1,023,344	1,175,935	994,235
Consulting and professional fees	1,762,469	488,177	128,356	1,762,469
Consumables	201,058	76,547	350,225	201,058
Entertainment	1,205,835	677,416	920,787	1,205,835
Insurance	1,010,186	682,354	1,138,742	1,010,186
Conferences and seminars	706,329	439,612	356,983	706,329
Lease rentals on operating lease	1,926,398	1,957,301	4,923,054	1,861,190
Fuel and oil	730,224	659,287	6,251,685	730,224
Printing and stationery	1,870,355	780,604	1,828,631	1,870,355
Staff welfare	612,291	553,531	341,393	612,291
Subscriptions and membership fees	2,137,544	1,153,718	2,534,858	2,137,544
Telephone and fax	3,400,475	3,069,180	3,981,725	3,400,475
Training	852,697	418,883	877,391	852,697
Travel - local	10,252,363	7,053,844	10,480,197	10,252,363
Electricity	9,627,652	9,623,056	12,247,334	9,627,652
Rates	330,883	292,489	-	-
Rates	-	-	281,694	330,883
Interdepartmental charges	2,688,604	694,670	3,983	-
Strategic sessions	1,930,789	1,897,817	662,537	2,688,604
Public events/ Imbizo	720,914	897,702	1,704,290	1,930,789
Purchase of samples	556,556	152,470	17,310	720,914
Job evaluation	1,535,979	2,068,086	6,220	556,556
Communication	284,961	437,426	1,459,353	1,535,979
Approved courses	7,425,324	9,782,947	519,572	284,961
Circumcision programme	93,726	-	147,034	93,726
Pest control	1,810	-	-	1,810
Council reporting documents	121,905	-	40,183	121,905
Delegated Management- Water Services Authority	-	-	58,917,794	-
Other expenses	-	-	6,584,945	2,831,651
	59,779,657	**51,004,672**	**124,522,952**	**55,120,776**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

24. Operating surplus

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

Operating lease charges				
Premises				
• Contractual amounts	1,098,190	1,239,519	-	-
Equipment				
• Contractual amounts	828,208	717,782	4,923,054	1,861,190
	1,926,398	**1,957,301**	**4,923,054**	**1,861,190**

Loss on sale of property, plant and equipment	(1,148,394)	-	(3,473,982)	-
Surplus on distribution of non-cash assets to owners	-	-	(468,342,250)	-
Amortisation on intangible assets	664,886	266,233	368,816	644,822
Depreciation on property, plant and equipment	91,063,085	91,101,594	114,378,151	90,957,616
Employee costs	144,860,714	131,315,348	217,765,244	141,546,327

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

25. Employee related costs

Basic	84,055,648	74,639,343	132,183,668	84,055,648
Bonus	6,805,169	5,121,488	10,744,544	6,805,169
Medical aid - company contributions	4,426,858	3,762,932	7,866,583	4,426,858
UIF	655,000	590,275	878,057	655,000
SDL	1,184,350	996,272	1,510,762	1,184,350
Leave pay provision charge	2,796,885	2,304,119	5,252,714	2,796,885
Industrial Council Levy	23,432	21,039	-	-
Industrial Council levies	-	-	39,407	23,432
Defined contribution plans	2,406,000	6,400,516	6,288,989	2,406,000
Travel, motor car, accommodation, subsistence and other allowances	15,904,924	13,111,212	17,754,143	15,904,924
Overtime payments	1,298,457	1,163,923	4,637,090	1,298,457
Long-service awards	62,786	(13,153)	1,324,750	62,786
Housing benefits and allowances	1,083,591	979,238	1,131,960	1,083,591
Other # 4	-	-	18,239,158	13,511,748
Termination benefits	13,511,748	13,488,252	-	-
CHDA salaries and wages	3,314,388	831,712	-	-
	137,529,236	**123,397,168**	**207,851,825**	**134,214,848**

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

Remuneration of Municipal Manager

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

Remuneration of Director : Finance

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

Remuneration of Director : Corporate services

Annual Remuneration	765,105	459,686	765,015	459,686
Car and other allowance	274,503	180,587	274,503	180,587
Contributions to UIF, Medical and Pension Funds	-	122,332	-	122,332
Service bonus	62,121	31,608	62,121	31,608
Other	90,085	15,490	90,085	15,490
	1,191,724	**809,703**	**1,191,724**	**809,703**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

25. Employee related costs (continued)

Remuneration of Director : Health Services

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

Remuneration of Director : Intergrated Planning and Development

Annual Remuneration	765,015	623,090	765,015	623,090
Car and other allowances	326,324	286,601	326,324	321,789
Contributions to UIF, Medical and Pension Funds	137,703	124,655	137,703	124,655
Acting allowance	-	8,319	-	8,319
Service bonus	62,121	46,191	62,121	46,191
Other	44,063	32,968	44,063	32,968
	1,335,226	**1,157,012**	**1,335,226**	**1,157,012**

Remuneration of Director : Strategic Services

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

Remuneration of Director : Technical Services

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

Chris Hani Development Agency directors

Annual Remuneration	764,826	-	-	-
Allowances	36,666	-	-	-
Acting allowances	393,145	-	-	-
Bonus	88,763	-	-	-
	1,283,400	**-**	**-**	**-**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

26. Remuneration of councillors

Executive Mayor	724,669	690,159	-	724,669
Chief Whip	498,903	522,587	-	498,903
Mayoral Committee Members	2,640,035	3,039,378	-	2,640,035
Speaker	582,900	495,775	-	582,900
Councillors	2,884,971	3,170,280	9,913,419	2,884,972
	7,331,478	**7,918,179**	**9,913,419**	**7,331,479**

27. Debt impairment

Debt impairment	-	-	-	(1,087,461)
Contributions to debt impairment provision	(1,087,461)	2,368,138	-	-
	(1,087,461)	**2,368,138**	**-**	**(1,087,461)**

28. Investment revenue

Interest revenue				
Unlisted financial assets	18,014,966	12,677,079	-	-
Bank	7,518,923	6,372,163	1,606,252	7,518,923
Unlisted financial assets	-	-	24,317,330	18,014,966
Interest: Other	-	-	192,907	449,795
Interest received - other	574,462	25,740	-	-
	26,108,351	**19,074,982**	**26,116,489**	**25,983,684**

29. Fair value adjustments

Other financial assets				
• Other financial assets (Designated as at FV through P&L	6,025,400	6,331,232	-	6,025,400

30. Depreciation and amortisation

Property, plant and equipment	91,063,085	91,101,594	114,378,151	90,957,616
Intangible assets	664,886	266,233	368,816	644,822
	91,727,971	**91,367,827**	**114,746,967**	**91,602,438**

31. Finance costs

Non-current borrowings	-	160,726	-	-
Interest on overdue accounts	125,808	131,228	381,440	125,808
Bank	-	57	-	-
Other interest paid	290,498	691,333	-	-
	416,306	**983,344**	**381,440**	**125,808**

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2014: R -).

32. Auditors' remuneration

Fees	5,178,713	4,805,866	5,214,677	5,178,713

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

33. Rental of facilities and equipment

Premises				
Premises	39,000	94,250	39,000	94,250

34. Contracted services

Other Contractors	9,197,339	1,028,202	13,160,725	9,197,339

35. Grants and subsidies paid

Other subsidies				
Engcobo Local Municipality	24,081,295	22,040,550	129,518	26,730,987
Ikwanca Local Municipality	12,678,602	6,047,152	(1,599,376)	12,678,602
Emalahleni Local Municipality	21,734,182	23,882,680	24,012,208	21,734,182
Intsika Yethu Local Municipality	26,831,598	25,703,987	116,057	29,733,441
Inxuba Yethemba Local Municipality	3,700,411	8,429,327	-	4,746,834
Lukhanji Local Municipality	30,652,151	25,467,803	-	37,525,837
Sakhisizwe Local Municipality	13,947,458	13,311,168	1,490,226	13,947,458
Tsolwana Local Municipality	10,635,150	10,299,704	7,498,247	10,635,150
Community projects	252,307,964	389,060,740	141,131,527	251,865,800
Pauper burials	47,479	16,989	45,644	47,479
Chris Hani Development Agency	-	-	21,627,742	9,749,723
Group co ID 12	-	-	320,000	-
	396,616,290	**524,260,100**	**194,771,793**	**419,395,493**

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

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

36. Bulk purchases

Water	13,322,406	13,174,780	14,344,034	13,322,406

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

37. Cash generated from (used in) operations

Surplus	368,438,263	196,236,649	366,073,006	196,953,675
Adjustments for:				
Depreciation and amortisation	91,727,971	91,673,367	114,746,967	91,602,438
Gain on sale of assets and liabilities	1,152,193	-	3,473,982	-
Surplus on distribution of non-cash assets to owners	-	-	(468,342,250)	-
Loss on foreign exchange	-	-	-	1,135,510
Fair value adjustments	(6,025,400)	(6,331,232)	-	(6,025,400)
Debt impairment	(1,087,461)	2,368,138	-	(1,087,461)
Movements in operating lease assets and accruals	(2,900)	(17,844)	35,506	(17,844)
Movements in retirement benefit assets and liabilities	2,308,437	(17,741,249)	2,308,437	(17,741,249)
Movements in provisions	-	5,060,699	-	5,060,699
Changes in working capital:				
Inventories	(749,460)	(75,924)	(6,354,405)	(75,924)
Other receivables from non-exchange transactions	(6,486,397)	104,503,095	(5,390,419)	105,524,093
Prepayments	1,830,024	(3,938,068)	(586,114)	(3,938,068)
Payables from non-exchange transactions	(139,866)	1,357,019	-	-
Payables from exchange transactions	(74,306,637)	92,426,589	(75,556,247)	91,319,198
VAT	22,342,902	(24,218,589)	22,342,901	(24,218,589)
Unspent conditional grants and receipts	(10,945,869)	(14,620,961)	2,033,445	(14,620,961)
	388,055,800	**426,681,689**	**(45,215,191)**	**423,870,117**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

38. Other cash item 1

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for				
• Infrastructure	808,431,466	722,635,519	808,431,466	722,635,519
• Community	41,539,690	35,114,556	39,635,725	35,114,556
	849,971,156	**757,750,075**	**848,067,191**	**757,750,075**
Not yet contracted for and authorised by accounting officer				
• Infrastructure	44,013,318	170,195,427	44,013,318	170,195,427
• Community	20,829,864	9,535,658	20,829,864	9,535,658
	64,843,182	**179,731,085**	**64,843,182**	**179,731,085**

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.

Operating leases - as lessee (expense)

Minimum lease payments due - Buildings				
- within one year	395,580	991,849	395,580	991,849
- in second to fifth year inclusive	280,734	-	280,734	-
	676,314	**991,849**	**676,314**	**991,849**
Minimum lease payments due - Other Equipment				
- within one year	653,959	388,031	348,656	105,782
- in second to fifth year inclusive	591,249	537,893	530,551	164,306
	1,245,208	**925,924**	**879,207**	**270,088**
The total future minimum sublease payment expected to be received under non-cancellable sublease	1,921,522	1,917,773	1,555,521	1,261,937

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

40. Contingencies

Contingent liabilities

Cession/Resolution - First National Bank	20,000	-	20,000	-
Guarantee - S.A. Post Office	-	20,000	-	20,000
Outstanding payments	2,501,111	2,501,111	2,501,111	2,501,111
RDP Services appointed by CHDM for the upgrading of streets and stormwater drainage, and the building of VIP toilets. The service provider has instituted action against the CHDM for recovery of payments allegedly not made.				
Samwu - arbitration award against CHDM	-	313,235	-	313,235
	2,521,111	**2,834,346**	**2,521,111**	**2,834,346**

Contingent assets

Court proceedings

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

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

41. Related parties

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

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

41. Related parties (continued)

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

Relationships
The Chris Hani Development Agency (CHDA) was incorporated in 2012.
Chris Hani District Municipality holds 100% of the issued shares

Controlling Entity	Chris Hani District Municipality
Authorised Shares	1000 ordinary shares of R1 each
Issued shares	1000 ordinary shares of R1 each
Chris Hani Co-operative Development Centre	Related Entity (CHDA)

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

41. Related parties (continued)

Mayibuye trust — Related Entity (CHDA)

Related party transactions

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

42. Prior period errors

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

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

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

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

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

6. The current and non-current portions of the Provision for Long service awards has been restated to correct the misstatement of these amounts per the 2012/2013 financial statements.

7. The prior year amount for Interest on external borrowings has been restated to reflect the correct portion of interest allocated against the DBSA liability.

8. The opening balances for Unspent Conditional Grants, Intangible Assets and PPE have been restated to correct errors which were made during the 2011/2012 financial year.

9. The opening balance for PPE has been restated to correct the overstatement of the depreciation charge for 2012/2013.

10. The opening balances for PPE, Intangible Assets, Payables and Receivables for Chris Hani Development Agency have been restated to correct errors which were made during the 2012/2013 financial year.

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

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

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

42. Prior period errors (continued)

Accumulated Surplus (effect of correction of prior year error on opening balances for 2011-2012)				
As previously reported	-	2,956,391,041	-	2,956,391,041
Correction of misstatement of Department of Transport grant creditor	-	3,894,943	-	3,894,943
PPE: Effect of reassessment of useful lives (cost)	-	9,706,166	-	9,706,166
PPE: Effect of reassessment of useful lives (accumulated depreciation)	-	14,303,337	-	14,303,337
Intangible Assets: Effect of reassessment of useful lives (cost)	-	(1,529,981)	-	(1,529,981)
Intangible Assets: Effect of reassessment of useful lives (accumulated depreciation)	-	2,719,227	-	2,719,227
PPE: Effect of reassessment of depreciation (Infrastructure Assets)	-	(364,139)	-	(364,139)
	-	**2,985,120,594**	**-**	**2,985,120,594**

Accumulated Surplus (effect of correction of prior year error on opening balance for 2012-2013)				
As previously reported (taking into account the effect of the restatement above)	-	3,178,038,574	-	3,178,038,574
Write-off SARS: Interest and Penalties balance not previously cleared	-	(576,218)	-	(576,218)
Write-off Duplicate Payments balance not previously cleared	-	(660,765)	-	(660,765)
Write-off Vodacom debtors balance not previously cleared	-	(492,323)	-	(492,323)
Correction of performance bonus accrual	-	55,279	-	55,279
DBSA Interest correction	-	(65,222)	-	(65,222)
Correction of depreciation on Infrastructure assets	-	711,824	-	711,824
Unrecorded income	-	(806,929)	-	-
Intangible Assets incorrectly expensed	-	(30,000)	-	-
PPE incorrectly expensed	-	(22,125)	-	-
Depreciation on incorrect treatment of PPE and Intangible Assets	-	1,208	-	-
Penalties on VAT not declared	-	101,607	-	-
Skills expense raised in error	-	1,111,405	-	-
Tax not recognised	-	14,649	-	-
Reversal of agency surplus	-	(650,891)	-	(650,891)
PPE: Effect of the reassessment of depreciation on Infrastructure Assets	-	(126,568)	-	(126,568)
	-	**3,176,603,505**	**-**	**3,176,233,690**

Statement of Financial Position				
Receivables from non-exchange transactions				
As previously reported	-	192,686,074	-	192,686,074
Write-off SARS: Interest and Penalties balance not previously cleared	-	(576,218)	-	(576,218)
Write-off Duplicate Payments balance not previously cleared	-	(660,765)	-	(660,765)
Write-off Vodacom debtors balance not previously cleared	-	(492,323)	-	(492,323)
	-	**190,956,768**	**-**	**190,956,768**

Statement of Financial Position

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014
42. Prior period errors (continued)				
Payables				
As previously reported	-	(198,267,296)	-	(198,267,296)
Accrual for project expenditure	-	(1,064,973)	-	(1,064,973)
Reclassification of current employee benefits	-	8,339,396	-	8,339,396
DBSA Interest correction	-	(65,222)	-	(65,222)
	-	**(191,058,095)**	**-**	**(191,058,095)**
Statement of Financial Position				
Property, Plant and Expenditure				
As previously reported	-	2,860,007,127	-	2,860,007,127
Accrual for project expenditure	-	1,064,973	-	1,064,973
Correction of depreciation on Infrastructure assets	-	711,824	-	711,824
PPE: Effect of reassessment of useful lives (cost)	-	9,706,166	-	9,706,166
PPE: Effect of reassessment of useful lives (accumulated depreciation)	-	14,303,337	-	14,303,337
PPE: Effect of the reassessment of depreciation on Infrastructure Assets	-	(126,568)	-	(126,568)
	-	**2,885,666,859**	**-**	**2,885,666,859**
Statement of Financial Position				
Provisions - current portion				
As previously reported	-	(164,608)	-	(164,608)
Long service awards correction	-	(981,598)	-	(981,598)
Performance bonus correction	-	55,279	-	55,279
Reclassification of current employee benefits	-	1,090,927	-	1,090,927
	-	**-**	**-**	**-**
Statement of Financial Position				
Provisions - non-current portion				
As previously reported	-	6,414,598	-	6,414,598
Long service awards correction	-	(981,598)	-	(981,598)
Reclassification of current employee benefits	-	(5,433,000)	-	(5,433,000)
	-	**-**	**-**	**-**
Statement of Financial Position				
Intangible assets				
As previously reported	-	177,009	-	177,009
Intangible Assets: Effect of reassessment of useful lives (cost)	-	(1,529,981)	-	(1,529,981)
Intangible Assets: Effect of reassessment of useful lives (accumulated depreciation)	-	2,719,227	-	2,719,227
	-	**1,366,255**	**-**	**1,366,255**
Statement of Financial Position				
Unspent Conditional Grants				
As previously reported	-	57,611,656	-	57,611,656
Correction of misstatement of Department of Transport grant creditor	-	(3,894,943)	-	3,894,943
	-	**53,716,713**	**-**	**61,506,599**

		Economic entity		Controlling entity	
Figures in Rand		2015	2014	2015	2014

43. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

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

44. Risk management

Capital risk management

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

The capital structure of the economic entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes , , , , , cash and cash equivalents disclosed in note 12, and equity as disclosed in the statement of financial position.

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

There are no externally imposed capital requirements.

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

The gearing ratio at 2015 and 2014 respectively were as follows:

Less: Cash and cash equivalents	12	236,428,313	192,033,165	351,995,688	362,756,956
Net debt		(236,428,313)	(192,033,165)	(351,995,688)	(362,756,956)
Total equity		4,719,103,876	3,532,211,074	4,715,022,258	3,531,832,486
Total capital		**4,482,675,563**	**3,340,177,909**	**4,363,026,570**	**3,169,075,530**

44. Risk management (continued)

Financial risk management

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

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

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

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

Liquidity risk

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

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

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

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

Interest rate risk

The economic entity’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the economic entity to fair value interest rate risk. Economic Entity policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2015 and 2014, the economic entity’s borrowings at variable rate were denominated in the Rand .

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the investment committee.

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

44. Risk management (continued)

Credit risk

Credit risk is managed on a group basis.

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

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

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

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

Financial instrument	Economic entity - 2015	Economic entity - 2014	Controlling entity - 2015	Controlling entity - 2014
Cash and cash equivalents	236,428,313	192,033,290	233,713,508	191,648,293
Investments	129,043,449	116,732,579	129,043,449	116,732,579
Other receivables from non exchange transactions	52,599,601	191,977,765	50,482,625	190,956,768

45. Events after the reporting date

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

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

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

46. Unauthorised expenditure

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

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

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

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

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

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

47. Fruitless and wasteful expenditure

Opening balance	1,247,778	872,683	1,234,270	872,683
Fruitless and wasteful expenditure - current year	222,051	375,095	125,135	361,587
Less: Amounts resolved (CHDA)	(76,849)	-	-	-
	1,392,980	**1,247,778**	**1,359,405**	**1,234,270**

The comparative figure for Fruitless and Wasteful expenditure has been restated to correct an understatement of this figure in the Annual Financial Statements for the financial year ended 30 June 2013.

48. Irregular expenditure

Opening balance	849,993,179	551,965,191	848,007,418	551,965,191
Add: Irregular Expenditure - current year	136,361,287	300,376,248	132,406,585	296,042,227
Less: current year amounts condoned	-	(2,348,260)	-	-
	986,354,466	**849,993,179**	**980,414,003**	**848,007,418**

Analysis of expenditure awaiting condonation per age classification

Current year	136,361,287	298,027,988	132,406,585	296,042,227
Prior years	849,993,179	551,965,191	848,007,418	551,965,191
	986,354,466	**849,993,179**	**980,414,003**	**848,007,418**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

48. Irregular expenditure (continued)

Details of irregular expenditure – current year - economic entity

Suppliers not registered on District Municipality's Supplier Database	199,843
Request for quotation was not advertised for at least seven (7) days on the municipality's website	6,528,531
Transactions where a deviation occurred, but the deviation does not constitute an emergency, nor was it impractical/impossible to obtain 3 quotations	437,021
Suppliers quoted at the same price. The criteria used to select one supplier over the other could not be established	478,060
Tax clearance certificate not attached	243,169
Transaction exceeds three-quote-threshhold, however was not taken to tender	264,000
Tender documentation required from the selected bidder not obtained	124,255,961
Procurement processes not followed	3,568,044
Human resources processes not followed	293,586
Non-compliance with SCM procedures	88,894
Payment of board feed not aligned to the policy	4,178
	136,361,287

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

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

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

Audit fees

Current year subscription / fee	5,649,340	4,775,008	5,178,713	4,775,008
Amount paid - current year	(5,649,340)	(4,775,008)	(5,178,713)	(4,775,008)
	-	-	-	-

PAYE and UIF

Current year subscription / fee	22,774,184	16,946,516	22,689,330	16,929,485
Amount paid - current year	(22,774,184)	(16,946,516)	(22,689,330)	(16,929,485)
	-	-	-	-

Pension and Medical Aid Deductions

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

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

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

VAT

VAT receivable	26,683,665	49,028,726	80,894,423	26,685,825

50. Budget differences

Explanations for differences between budget and actual amounts - controlling entity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Municipal Entity - The reason for the 40% under-achievement in revenue is a result of potential funders that had shown interest in partnering with the agency that did not come through. In certain cases, less than the envisaged amount was received.

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

50. Budget differences (continued)

Municipal Entity - 53% of the budgeted expenditure was spent in the current year. The agency is in the process of stabilising its operations. The organisational structure has recently been approved and a CEO appointed. A number of vacancies are in the process of being filled, hence an underspending in employee costs for the current year. This inevitably had a negative impact on the spending on implementing projects, which is the core of the agency’s mandate.

Differences between budget and actual amounts basis of preparation and presentation

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

Changes from the approved budget to the final budget

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

51. Non-compliance with the Municipal Finance Management Act

A summary of the Municipality's pertinent non-compliance with the MFMA is as follows:
**Section 15 of MFMA - Appropriation of funds for expenditure: Expenditure was incurred in excess within the limits of the amounts appropriated for the different votes in an approved budget.
**Section 62 of MFMA - General financial management functions: The accounting officer did not take all reasonable steps to ensure the appropriate management of expenditure of the Municipality.
**Section 32(4) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not promptly inform the mayor, the MEC for local government in the province and the Auditor-General of any unauthorised, irregular or fruitless and wasteful expenditure incurred.
**Section 32(2) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not take the necessary steps to recover Unauthorised, irregular or fruitless and wasteful expenditure.
**Section 65 of MFMA - Expenditure management: The accounting officer did not take all reasonable steps to ensure that the financial administration of the Municipality is appropriately managed.
**Section 122 of MFMA - Preparation of financial statements: The Municipality did not prepare Annual Financial Statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.
**Section 63 of MFMA - Asset and liability management: The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register.
**Section 115 of MFMA - Supply Chain Management - Implementation of the system: The accounting officer did not take all reasonable steps to implement the supply chain management policy of the municipality and to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of irregular practices.

A summary of the pertinent non-compliance with the MFMA for the Municipal Entity is as follows:
**A supplier was used beyond the contract period and beyond contract scope (Section 116(3) of MFMA).