Unaudited Annual Financial Statements

for

ILEMBE DISTRICT MUNICIPALITY

As at 30 June *2015*

Province: KwaZulu Natal

AFS rounding: *R (i.e. only cents)*

Contact Information:

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General Information

His Worship, Councillor Sibusiso Welcome Mdabe	**Mayor**
Councillor Thokozani Msweli	**Speaker**
Councillor Amita Badul	Member of the Executive Committee
Councillor Thami Jabulani Zondo	Member of the Executive Committee
Councillor Monitha Dolly Shandu	Member of the Executive Committee
Councillor Moosa Suleman Cassim Motala	Member of the Executive Committee
Councillor Samukelisiwe Gugu Xhakaza	*Member*
Councillor Nkosinathi Vincent Chili	*Member*
Councillor Susan Molebong Cele	*Member*
Councillor Jabulisiwe Mavis Cele	*Member*
Councillor Musawenkosi Simeon Ntuli	*Member*
Councillor Faith Govender	*Member*
Councillor Makhosonke Petros Ntuli	*Member*
Councillor Rejoice Nontsikelelo Pakkies	*Member*
Councillor Gideon Njabulo Mbonambi	*Member*
Councillor Lucky Reginald Makhathini	*Member*
Councillor Musawenkosi Aubrey Maphumulo	*Member*
Councillor Andrew Gopaul	*Member*
Councillor Leonard Mandla Ndlovu	*Member*
Councillor Fuzile Pearl Nkosi	*Member*
Councillor Zandile Sandy Thoolsi	*Member*
Councillor Cebisile Pridence Ngidi	*Member*
Councillor Velile Charline Nzama	*Member*
Councillor Lindelani Mbulelo Zondi	*Member*
Councillor Jennifer A. Vallan	*Member*
Councillor Elphas Lindelihle Dube	*Member*
Councillor Catherine Tholakele Kumalo	*Member*
Councillor Lindelihle Rodger Mdletshe	*Member*
Councillor Langelihle Roney Mbonambi	*Member*
Councillor Dumisani Jotham Zubane	*Member*

Municipal Manager

P N Gamede - Appointed as Municipal Manager in June 2015

Chief Financial Officer

Nosipho Mba - Appointed on 01 December 2011.

Grading of Local Authority

Four

Auditors

Auditor-General

Bankers

First National Bank

General Information (continued)

	Ilembe House
Physical address:	Ilembe House 59/61 Mahatma Ghandhi Street KWADUKUZA 4450
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ILEMBE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
As at 30 June 2015

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 48, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, and payments made to Councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Ms. N. Gamede

Municipal Manager: PN GAMEDE

DATE: 31 August 2015

ILEMBE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
As at 30 June 2015

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	Note	2015 R	2014 R
ASSETS			
Current Assets			
Cash and cash equivalents	3	31 863 096	44 838 379
Trade and other receivables from exchange transactions	2	136 201 879	110 077 074
Trade and other receivables from non exchange transactions	4	74 186 007	19 446 509
Inventories	6	14 941 091	7 078 439
Total current assets		257 192 073	181 440 400
Non-current assets			
Non-current receivables	7	-	17 307
Long term Investments	8	22 982 423	21 549 063
Other non-current financial assets	5	100	100
Property, plant and equipment	10	1 572 494 511	1 056 102 421
Intangible assets	12	4 579 024	6 010 666
Heritage Assets	11	205 578	205 578
Total non-current assets		1 600 261 636	1 083 885 135
Total assets		1 857 453 709	1 265 325 535
LIABILITIES			
Current liabilities			
Trade and other payables from exchange transactions	13	266 886 973	181 338 385
Trade and other payables from non - exchange transactions	14	9 767 521	23 475 118
Current portion of borrowings	15	1 516 041	3 115 127
Current portion of finance lease liability	16	8 426 370	1 452 292
Current portion of employee benefits	37	801 472	571 000
Total current current liabilities		287 398 376	209 951 923
Non-current liabilities			
Non-current borrowings	15	89 866 402	86 268 717
Non-current finance lease liability	16	23 196 864	441 046
Employee benefits	37	6 470 155	6 114 000
Total non-current liabilities		119 533 421	92 823 764
Total liabilities		406 931 797	302 775 686
Net assets		1 450 521 912	962 549 850
NET ASSETS			
Accumulated surplus		1 450 521 912	962 549 850
Total net assets		1 450 521 912	962 549 850

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
As at 30 June 2015

	Note	2015 R	2014 R
Revenue from exchange transactions		170 238 980	153 909 730
Service charges	17	145 000 897	102 904 759
Rental of facilities and equipment	18	17 756	-
Interest earned - external investments	19	3 614 065	4 401 310
Interest earned - outstanding receivables	20	14 393 406	13 119 710
Other income	22	7 212 856	33 483 951
Revenue from non exchange transactions		712 659 888	565 222 234
Government grants and subsidies	21	712 659 888	565 222 234
Total revenue		882 898 868	719 131 964
Expenses			
Employee related costs	23	153 413 213	134 335 596
Remuneration of councillors	24	8 589 586	6 629 534
Bad debts	2	40 409 419	18 547 232
Depreciation, impairment and amortisation	25	-137 521 017	340 050 903
Repairs and maintenance		52 721 282	33 074 341
Finance costs	26	11 246 933	9 266 946
Bulk purchases	27	74 440 680	72 296 236
Contracted services	28	66 716 671	65 537 666
Grant Expenses	29	34 217 638	35 317 924
General expenses	30	89 021 612	77 217 476
Total expenses		394 156 016	792 273 854
Gain / (loss) on sale of assets		15 392	(999 838)
Forex gain/(loss)		(6 245)	(81 899)
		488 751 999	(74 223 627)

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
As at 30 June 2015

	Note	IDM Accumulated Surplus/(Deficit) Total
		R
Balance at 30 June 2013		1 076 355 275
Prior year adjustments	31	(39 595 275)
Restated balance		1 036 760 000
Surplus / (deficit) on revaluation of property of property, plant and equipment		-
Other items		-
Other items		-
Transfers to / from accumulated surplus/(deficit)		-
Surplus / (deficit) for the period		(74 210 152)
Balance at 30 June 2014		962 549 849
Correction of prior period error	31	(445 899)
Restated balance		962 103 949
Net gains and losses not recognised in the statement of financial performance		
Transfers to / from accumulated surplus/(deficit)		(334 037)
Surplus / (deficit) for the period		488 751 999
Balance at 30 June 2015		1 450 521 912

ILEMBE DISTRICT MUNICIPALITY
CASH FLOW STATEMENT
As at 30 June 2015

	Note	IDM 2015 R	IDM 2014 R
Receipts		734 085 707	712 854 466
Sales of goods and services		95 232 752	122 308 653
Grants		638 852 954	590 545 813
Payments		(374 361 446)	(378 531 822)
Employee costs		159 935 004	136 428 738
Suppliers		214 426 442	242 103 085
CASH GENERATED FROM OPERATIONS	32	359 724 261	334 322 644
Interest received		3 614 065	4 401 310
Interest paid		(11 246 933)	(9 266 946)
Net cash flows from operating activities		352 091 393	329 457 008
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)		(352 938 611)	(297 726 725)
Proceeds from sale of fixed assets		265 000	-
Increase in investments		(1 433 360)	(1 433 360)
Purchase of intangibles		(281 156)	(941 692)
Net cash flows from investing activities		(354 388 127)	(300 101 777)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1 582 325)	(2 958 710)
Repayment of finance lease liability		(9 096 224)	(3 553 548)
Net cash flows from financing activities		(10 678 549)	(6 512 258)
Net increase / (decrease) in net cash and cash equivalents		(12 975 283)	22 842 973
Net cash and cash equivalents at beginning of period		44 838 379	21 995 406
Net cash and cash equivalents at end of period	33	31 863 096	44 838 379

ILEMBE DISTRICT MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
As at 30 June 2015

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (Council Approved By-law)	Final Budget	Actual Income/ Expenditure	Unauthorised Expenditure	Variance	% Variance	Explanation of variances
	1	2	3	4	5	6	7	8	9
	R	R	R	R	R	R	R		
Service Charges	269 659 536	178 909 420	0	178 909 420	145 000 897		-33 908 523	-19%	The main reason for the variance is due to the fact that over 10 000 consumer conventional meters that have been replaced by the intelligent meter project are either not yet linked or consumers are not purchasing water. On sanitation, the variance is attributable to the fact that water consumption revenue was low hence affecting the sanitation revenue.
Investment Revenue	10 508 699	4 131 540	0	4 131 540	3 614 065		-517 475	-13%	The variance is due to changes in average interest rates offered by the banks on investments and the total amount invested with them.
Transfers Recognised - Operatior	332 550 336	358 674 150	0	358 674 150	360 624 097		1 949 946	1%	Accept the variance as immaterial
Other Own Revenue	28 775 232	39 389 172	0	39 389 172	21 624 019		-17 765 153	-45%	Some Revenue votes are dependant on certain factors, hence the amounts will not always tally. There has been a slow recovery of interest on outstanding debtors.
Total Revenue (Excluding Capital Transfers)	641 493 803	581 104 281	0	581 104 281	530 863 076	0	-50 241 205		
Employee Costs	156 790 611	168 805 727		168 805 727	153 413 213	0	-15 392 514	-9%	Accept the variance as immaterial
Remuneration Of Councillors	7 389 333	8 089 333		8 089 333	8 589 586		500 253	6%	Accept the variance as immaterial
Debt Impairment	55 977 257	44 121 571		44 121 571	40 409 419		-3 712 153	-8%	Accept the variance as immaterial
Depreciation & Asset Impairment	26 176 976	48 960 423		48 960 423	-137 521 017		-186 481 440	-381%	Impairement reversal in relation to condition assessment
Finance Charges	11 728 622	11 728 622		11 728 622	11 246 933		-481 689	-4%	Accept the variance as immaterial
Materials & Bulk Purchases	88 316 871	120 618 273		120 618 273	127 161 963	0	6 543 690	5%	Accept the variance as immaterial
Contracted Services	45 557 000	78 944 892		78 944 892	66 716 671		-12 228 221	-15%	Attributable to lease of vehicle, vehicle hire and other services of which some is related to the drought, i.e. hire of water tankers
Grant Expenses	15 082 336	34 539 361		34 539 361	34 217 638		-321 723	-1%	Accept the variance as immaterial
Other Expenditures	126 127 691	119 758 905		119 758 905	89 921 612	0	-29 837 293	-25%	The under expenditure is due to austerity measures in place, due to drought issues.
Total Expenditure	533 146 698	635 567 107	0	635 567 107	394 156 016	0	-241 411 090		
Surplus/(Deficit)	108 347 105	-54 462 825	0	-54 462 825	136 707 060	0	191 169 885		
Transfers Recognised - Capital	216 688 000	252 993 674	0	252 993 674	276 684 392		23 690 718	9%	Accept as immaterial
Contributions Recognised - Capital & Contributed Assets	110 000 000	110 000 000	0	110 000 000	75 351 400		-34 648 600	-31%	Grant amount includes payments relating to laste year debtors hence the deemed under expenditure.

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (Council Approved By-law)	Final Budget	Actual Income/ Expenditure	Unauthorised Expenditure	Variance	% Variance	Explanation of variances
Surplus/(Deficit) After Capital Transfers	435 035 105	308 530 849	0	308 530 849	488 742 852	0	180 212 003		
Profit/(Loss)					9 147		9 147		
Surplus/(Deficit For The Year	435 035 105	308 530 849	0	308 530 849	488 751 999	0	180 221 150		
Capital Expenditure & Funds Sources									
Capital Expenditure									
Transfers Recognised - Capital	207 621 053	229 542 660	0	229 542 660	249 439 137		19 896 477	9%	Expenditure on grants will improve by year end
Public Contributions & Donations	78 947 368	78 947 368	0	78 947 368	72 534 056	0	-6 413 313	-8%	Accept the variance as immaterial
Internally Generated Funds	24 196 000	26 396 000	0	26 396 000	31 306 045	0	4 910 045	19%	Austerity measures
Total Sources Of Capital Funds	310 764 421	334 886 029	0	334 886 029	353 279 238	0	18 393 209		

1 BASIS OF PREPARATION

1.1 STATEMENT OF COMPLIANCE

These annual financial statements have been prepared in accordance with the effective South African Standards of Generally Recognised Accounting Practice (GRAP), as approved by the Minister of Finance, including any interpretations and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 BASIS OF MEASUREMENT

The annual financial statements have been prepared on the accrual basis except for the following material item in the statement of financial position:

the defined benefit liability is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

Accounting policies for material transactions, events or conditions not covered by the Standards of GRAP have been developed in accordance with paragraphs 7,11 and 12 of GRAP 3 *Accounting policies, changes in accounting estimates and errors*. These accounting policies and the applicable disclosures have been based on International Public Sector Accounting Standards (IPSAS) and the South African Statements of Generally Accepted Accounting Practice (SA GAAP), including any interpretations of such statements issued by the Accounting Practices Board.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

1.4 OFFSETTING

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.5 GOING CONCERN ASSUMPTION

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

1.6 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future.

1.7 COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. The municipality shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis. All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget. The municipality shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget (refer note 1.10).

1.8 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality. Application of all of the GRAP standards noted below will be effective from a date to be announced by the Minister of Finance. The effective dates are currently unknown.

GRAP 18 Segment Reporting - issued February 2011
GRAP 20 Related Party Disclosures - issued June 2011
GRAP 32 Service Concession Arrangements (Grantor) - issued August 2013
GRAP 105 Transfer of Functions Between Entities Under Common Control - issued November 2010
GRAP 106 Transfer of Functions Between Entities Not Under Common Control - issued November 2010
GRAP 107 Mergers - issued November 2010
GRAP 108 Statutory Debtors - issued September 2013

1.9 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED AND EFFECTIVE

The following GRAP standards have been issued and are effective and have been adopted by the municipality.

GRAP 25 Employee Benefits - effective 01 April 2013

The impact of the application of these standards on the municipality's annual financial statements is as follows:

GRAP 25 - Requirements of GRAP 25 are similar to the requirements of IAS 19 Employee Benefits applied by the municipality during the 2012/13 financial year except for the fact that GRAP 25 requires actuarial gains and losses to be recognised in full in the year that they occur and past service costs to be recognised as an expense in the reporting period in which the plan is amended. No material impact is expected from these changes

1.10 PRESENTATION OF BUDGET INFORMATION IN THE FINANCIAL STATEMENTS

The budget is mainly approved on a cash basis by functional classification. The approved budget covers the period from 1 July 2014 to 30 June 2015. The budget and accounting bases for some votes differ. The financial statements are prepared on the accrual basis using a classification 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. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. The amounts of these adjustments are identified in note 41. A reconciliation between the actual amounts on a comparable basis as presented in the statement of comparison of budget and actual amounts and the actual amounts in the cash flow statement for the period ended 30 June 2014 is presented in note 41. The financial statements and budget documents are prepared for the same period. There is a basis difference: the budget is mainly prepared on a cash basis and the financial statements on the accrual basis. The reconciliation as required by GRAP 24 is also shown in note 41. The statement of comparison of budget and actual amounts is disclosed as a statement in the annual financial statements.

Differences between budget and actual amounts are regarded as material when a more than 10% variance exists.

All material differences are explained in the notes to the annual financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies had been applied consistently during the current and previous reporting period, as set out in note 1.2

2.1 PROPERTY, PLANT AND EQUIPMENT

2.1.1 INITIAL RECOGNITION

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 year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

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

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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.1.2 SUBEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

2.1.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 Non-current assets held for sale and discontinued operations. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

Infrastructure	Years	Other	Years
Water	10 - 60	Machinery and equipment	3 - 20
Sewerage	10 - 60	Furniture and equipment	3 - 50
Other	10 - 50	Motor vehicles	4 - 20

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance - refer to note 19 for further information on impairment of assets.

2.1.4 DERECOGNITION

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

2.1.5 LEASED ASSETS

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Upon initial recognition of assets leased under finance leases, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

Where an intangible asset 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.

subsequent

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software and websites 2 - 5 Years

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date - refer to note 19 for further information on impairment of assets. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 DERECOGNITION

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 HERITAGE ASSETS

4.1 INITIAL RECOGNITION AND MEASUREMENT

Heritage assets are assets that are normally held indefinitely for their unique cultural, environmental, historical, natural, scientific, technological or artistic significance for the benefit of future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

4.2 SUBSEQUENT MEASUREMENT - COST MODEL

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

4.3 DEPRECIATION & IMPAIREMENT

Heritage assets are not depreciated. The municipality assesses at each reporting date whether there is any indication that a heritage asset may be impaired - refer to note 18 for further information on impairment of assets.

In assessing whether there is an indication that an asset may be impaired, the municipality considers, as a minimum, the following indications:

4.3.1 External sources of information

(a) During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) The absence of an active market for a revalued heritage asset.

4.3.2 Internal sources of information

(a) Evidence is available of physical damage or deterioration of a heritage asset.

(b) A decision to halt the construction of the heritage asset before it is complete or in a usable form.

4.4 DERECOGNITION

The carrying amount of a heritage asset is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amounts of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

5 INVENTORIES

5.1 INITIAL RECOGNITION

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

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

5.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

The basis of allocating cost to inventory items is the weighted average method.

5.3 WATER INVENTORY

Water inventory represents water housed in reservoirs within the municipal area and is measured at the lower of cost, which is deemed to be fair value, and net realisable value. In the absence of a market that trades in water outside of local government, the fair value utilised to quantify water inventory is based on the unit reference value. The unit reference value is a determined by a formula that is utilised in the engineering department to calculate the development cost of new water resources.

6 INVESTMENTS IN CONTROLLED ENTITIES

In the municipality's separate annual financial statements, investments in controlled entities are measured at cost.

7 FINANCIAL INSTRUMENTS

7.1 INITIAL RECOGNITION

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

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 with another entity under conditions that are potentially unfavourable to the entity.

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions. Financial assets are recognised using trade date accounting

7.2 INITIAL MEASUREMENT

Financial instruments are initially measured at fair value and plus transaction costs for financial instruments at amortised cost or cost. Fair value is usually the transaction cost at the date of recognition. For financial instruments at amortised cost, if the transaction cost is not market related i.e. no interest is charged for deferred payments or when the account is overdue, or interest charged is at below- market related rate: the municipality determines the fair value. The fair value is the present value of the expected future cash flows, without taking into account any future losses or the possibility of default, discounted using a market related interest rate, adjusted for credit risk over the expected life of the financial instrument. For financial instruments at fair value, the fair value is determined based on quoted prices in an active market. If there is no active market, it is determined using valuation techniques. For financial instruments at cost, the financial instrument is only measured at cost if the fair value can not be measured reliably. Where a financial instrument contains both a liability and a residual interest component, the municipality allocates the instrument into its component parts. The municipality recognises the liability at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its components.

7.3 SUBSEQUENT MEASUREMENT

Financial assets and liabilities are subsequently measured either at fair value, or amortised cost or cost using the following categories:

(a) Financial instruments at fair value

(b) Financial instruments at amortised cost

(c) Financial instruments at cost

7.3.1 FINANCIAL INSTRUMENTS AT FAIR VALUE

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 , financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost and non derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition. Financial instrument at fair value are subsequently measured at fair value with changes in fair value recognised in surplus or deficit.

7.3.2 FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial instruments at amortised cost , are non-derivative financial assets or financial liabilities that have fixed or determinable payments , excluding those the municipality designates at fair value at initial recognition or are held for trading. Financial instruments at amortised cost are subsequently measured at amortised cost using effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument (or in some cases a shorter period) to the net carrying amount at initial recognition. Financial assets are subject to annual impairment review. Refer to note 7.6 for details on impairment and uncollectability of financial assets.

7.3.3 FINANCIAL INSTRUMENTS AT COST

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 cost are subsequently measured at cost if the fair value cannot be reliably determined. Financial assets are subject to annual impairment review. Refer to note 7.6 for details on impairment and uncollectability of financial assets.

7.4 RECLASSIFICATIONS

The municipality does not reclassify a financial instrument when it is issued or held , except for a combined instrument that is required to be measured at fair value or an investment in residual interest subject to certain requirements.

7.5 GAINS AND LOSSES

Gains and losses on fair value measurements ,reclassifications , impairment , derecognition are recognised in surplus or deficit.

7.6 IMPAIRMENT AND UNCOLLECTABILITY OF FINANCIAL ASSETS

Financial assets are subject to annual impairment review as follows:

7.6.1 FINANCIAL ASSETS AT AMORTISED COST

For financial assets at amortised cost; the municipality assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the loss is recognised in surplus or deficit. The municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset, (whether individually significant or not), an entity includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. The impairment loss is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The impairment loss is recognised in surplus or deficit by reducing the carrying amount either directly or through the use of an allowance account. If, in a period after an impairment loss has been recognised, events occur or circumstances change that indicate that the impairment loss recognised in a previous period should be reversed, the municipality reverses the impairment loss previously recognised either directly or by adjusting an allowance account.

7.6.2 FINANCIAL ASSETS AT COST

For financial assets at cost; the municipality assesses whether there is any objective evidence that a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the loss is recognised in surplus or deficit. The impairment loss is the difference between the carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for similar financial assets. The impairment loss is recognised in surplus or deficit by reducing the carrying amount directly. The impairment loss is never reversed in subsequent periods.

7.7 DERECOGNITION

7.7.1 FINANCIAL ASSETS

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

7.7.2 FINANCIAL LIABILITIES

The municipality removes a financial liability from its statement of financial position when , and only, it is extinguished . A financial liability is extinguished when the debtor either:
(a) Discharges the liability by paying the creditor, normally with cash, other financial liabilities , goods or services.
(b) Is legally released from primary responsibility for the liability either by process(expires) of law or by the creditor (cancelled). If the debtor has given a guarantee , this condition may still be met.
(c) Waives the debt or it is assumed by another municipality by way of a non- exchange transaction.
Interest, dividends or similar distributions , losses and gains relating to a financial instrument or a component that is a financial liability should be recognised as revenue or expense in surplus or deficit. A financial asset and a financial liability should be offset and the net amount presented in the statement of financial position when and when , the municipality:
(i) Currently has a legally enforceable right to set off the recognised amounts; and
(ii) Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

8 FOREIGN CURRENCY TRANSACTION

Transactions in foreign currencies are translated to the functional currency of the municipality at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in surplus or deficit, except for differences arising on the retranslation of available-for-sale financial instruments, which are recognised in net assets.

9 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is defined in section 1 of the MFMA as follows:
"unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—
(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;
(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
(f) a grant by the municipality otherwise than in accordance with this Act.

9.1 IDENTIFICATION AND INTERNAL REPORTING

Unauthorised expenditure is identified through the municipality's financial system application controls. On identification of the unauthorised expenditure due to overspending on specific votes, the relevant Head of department is notified, where funds are available on other votes within the directorate, virements are made within the provisions of the virement policy. If after the provisions of the virement policy are applied, the unauthorised expenditure still remains/exist, it is recorded in the unauthorised expenditure register and reported to the accounting officer, mayor and council in terms of MFMA section 32.

9.2 COUNCIL DECISION AND ACCOUNTING TREATMENT

Unauthorised expenditure that is incurred before the adjustment budget process is finalised is condoned by council through the adjustment budget. Unauthorised expenditure that is incurred after the adjustments budget is referred to the Municipal Public Accounts Committee (MPAC) for investigation and recommendation to council. Where MPAC after investigation, recommends to council to certify the unauthorised expenditure as irrecoverable and write - off, the unauthorised expenditure is disclosed in the notes to the financial statements as condoned by council. Where MPAC determines after investigation, that the unauthorised expenditure must be recovered from the relevant official, the unauthorised expenditure is recognised as an asset (debtor) in the statement of financial position and also disclosed in the unauthorised expenditure note as unauthorised expenditure incurred in the current financial year.

9.3 EXTERNAL REPORTING

The accounting officer of the municipality promptly informs the mayor, the MEC for local government in the province and the Auditor - General, in writing, of:
(a) Any unauthorised expenditure incurred by the municipality;
(b) Whether any person is responsible or under investigation for such unauthorised expenditure; and
(c) The steps that have been taken-
 (i) To recover or rectify such expenditure; and
 (ii) To prevent a recurrence of such expenditure

10 IRREGULAR EXPENDITURE

Irregular expenditure is defined in section 1 of the MFMA as follows:
"irregular expenditure", in relation to a municipality or municipal entity, means—
(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,
but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

10.1 IDENTIFICATION AND INTERNAL REPORTING

Every expenditure item is reviewed before payment is made to identify any instances of non-compliance with the relevant Acts and supply chain management policy of the municipality. Where an expenditure item is identified as irregular expenditure, it is recorded in the irregular expenditure register and reported to the accounting officer, mayor and council in terms of MFMA section 32.

10.2 COUNCIL DECISION AND ACCOUNTING TREATMENT

Irregular expenditure reported to council is referred to the Municipal Public Accounts Committee (MPAC) for investigation and recommendation to council. Where MPAC after investigation, recommends to council to certify the irregular expenditure as irrecoverable and write - off, the irregular expenditure is disclosed in the notes to the financial statements as certified and written - off by council as irrecoverable. Where MPAC determines after investigation, that the irregular expenditure must be recovered from the relevant official, the irregular expenditure is recognised as an asset (debtor) in the statement of financial position and also disclosed in the irregular expenditure note as irregular expenditure incurred in the current financial year.

10.3 EXTERNAL REPORTING

The accounting officer of the municipality promptly informs the mayor, the MEC for local government in the province and the Auditor - General, in writing, of:
(a) Any irregular expenditure incurred by the municipality;
(b) Whether any person is responsible or under investigation for such irregular expenditure; and
(c) The steps that have been taken-
 (i) To recover or rectify such expenditure; and
 (ii) To prevent a recurrence of such expenditure

11 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is defined in section 1 of the MFMA as follows:
"fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

11.1 IDENTIFICATION AND INTERNAL REPORTING

Every expenditure item is reviewed before payment is made to identify whether it meets the definition of fruitless and wasteful expenditure. Where an expenditure item is identified as fruitless and wasteful expenditure, it is recorded in the fruitless and wasteful expenditure register and reported to the accounting officer, mayor and council in terms of MFMA section 32.

11.2 COUNCIL DECISION AND ACCOUNTING TREATMENT

Fruitless and wasteful expenditure reported to council is referred to the Municipal Public Accounts Committee (MPAC) for investigation and recommendation to council. Where MPAC after investigation, recommends to council to certify the fruitless and wasteful expenditure as irrecoverable and write - off, the fruitless and wasteful expenditure is disclosed in the notes to the financial statements as certified and written - off by council as irrecoverable. Where MPAC determines after investigation, that the fruitless and wasteful expenditure must be recovered from the relevant official, the fruitless and wasteful expenditure is recognised as an asset (debtor) in the statement of financial position and also disclosed in the fruitless and wasteful expenditure note as fruitless and wasteful expenditure incurred in the current financial year.

11.3 EXTERNAL REPORTING

The accounting officer of the municipality promptly informs the mayor, the MEC for local government in the province and the Auditor - General, in writing, of:
(a) Any irregular expenditure incurred by the municipality;
(b) Whether any person is responsible or under investigation for such fruitless and wasteful expenditure; and
(c) The steps that have been taken-
(i) To recover or rectify such expenditure; and
(ii) To prevent a recurrence of such expenditure

12 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
(b) The municipality 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.

13 LEASES

13.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

13.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.
The tariff in respect of sewerage is based on the value of consumption used from one point of meter supply

14 REVENUE

14.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been perfomed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Further adjustments are made to take into account staggered tariffs where applicable. The estimates of consumption between meter readings are based on 6 months average reading history.

Service charges from sewerage and sanitation are based on the value of consumption used from one point of meter supply and this is set out in the tariffs of charges approved by Council.

Revenue from the sale of water prepaid meter cards is recognized based on consumption except where a reliable estimate cannot be made after every reasonable effort to gather appropriate information had been made. In these instances, revenue is recognized at the point of sale.

Interest revenue is recognised on a time proportion basis.

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

14.2 REVENUE FROM NON - EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions are transactions where the municipality receives revenue and provide no or a nominal consideration directly in return.

A transaction can be a combination of exchange and non-exchange transactions. In these instances the municipality determines what portion of the transaction is an exchange transaction and what portion is a non-exchange transaction and then recognise it separately.

Most non-exchange transactions that the municipality enters into involve stipulations on transferred assets are in terms in laws or regulations, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality. Stipulations can either be in the form of conditions or in the form of restrictions. For both conditions and restrictions the municipality may be required to use the transferred asset for a particular purpose. The municipality uses substance over form to determine whether a stipulation is a condition or restriction.

14.3 RECOGNITION

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognised as an asset when all of the following criteria have been satisfied:

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 (which is the case when a stipulation is a condition).

Liabilities are recognised for conditions to be met which is attached to the transferred asset. The liability is discharged and revenue recognised as the conditions are satisfied.

The municipality does not recognise service in - kind.

The municipality recognises revenue from vat refunds on cash basis.

14.4 MEASUREMENT

Non-monetary assets such as property, plant and equipment, investment property and inventory, acquired through a non-exchange transaction, are initially measured at its fair value on acquisition date.

Monetary assets arising out of a contractual agreement, such as cash and receivables, are initially measured at fair value on acquisition date.

Revenue is measured at the amount equal to the increase in net assets (i.e. the net effect).

The amount recognised as a liability is the best estimate of the amount required to settle the present obligation at the reporting date.

Revenue from vat refunds is measured at gross amounts.

15 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

16 EMPLOYEES BENEFITS

16.1 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.

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 bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

16.2 POST- EMPLOYMENT BENEFITS

16.2.1 DEFINED CONTRIBUTION PLANS

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees, unless another standard requires or permits the inclusion of the contribution in the cost of an asset. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after end of the period in which the employees render the related service, they are discounted using a risk-free rate determined by reference to market yields at the reporting date on government bonds, or by reference to market yields on high quality corporate bonds. The municipality contributes to various national-and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer plans and are accounted for as defined contribution plans as there is no consistent and reliable basis available for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. The contributions to fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national-or provincial level using the projected unit credit method. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

16.2.2 DEFINED BENEFITS PLANS

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. It defines an amount of benefit that an employee will receive on retirement. The municipality's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine its present value. 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 reduced by the fair value of plan assets.

The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the municipality's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the municipality, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the municipality. An economic benefit is available to the municipality if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

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. The expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.
When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in surplus or deficit on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in surplus or deficit.

The municipality immediately recognises all actuarial gains and losses arising from defined benefit plans directly in net assets.

16.2.3 OTHER LONG - TERM BENEFITS PLANS

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted to determine the net obligation.

The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the municipality's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in surplus or deficit in the period in which they arise.

16.2.4 TERMINATION BENEFITS

Termination benefits are recognised as an expense when the municipality is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the municipality has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

17 VALUE ADDED TAX (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes. The municipality accounts for VAT on a monthly basis.

18 IMPAIRMENT OF ASSETS

Primary objective for cash generating assets is to generate a commercial return and the primary objective for non- cash generating asset is service delivery. The municipality uses the following sets of questions as a criteria to distinguish between cash generating and non-cash generating assets:
(a) Was the asset acquired to generate a commercial return?
(b) Does the asset operate independently from other assets?
(c) Does the asset generate cash flows independently from other assets?
If the answer is yes to all of these questions, then the municipality accounts for the asset as a cash generating asset. If the above criteria is not met, the municipality accounts for the asset as non-cash generating asset.

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

Irrespective of whether there is any indication of impairment, the municipality also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

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

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

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

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

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

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS	Gross Balances	Provision for Bad debts	Net Balance
Trade receivables	R		
as at 30 June 2015			
Service debtors			
Water and Sewerage	209 575 679	88 862 177	120 713 502
Direct Deposits	(2 017 332)	-	(2 017 332)
Total	207 558 347	88 862 177	118 696 170
Other Receivables			
Umngeni water debtor	334 858	-	334 858
Accrued interest	35 524	-	35 524
Ilembe Enterprise	-	-	-
Outstanding deposits	1 512 610	-	1 512 610
Sundry Debtors	324 035	-	
Other debtors	4 479 271	-	4 479 271
RD Cheques	3 685	-	3 685
Sundry Debtors - F/W Expenditure	15 015	10 000	5 015
Acknowledgement of debt	403 467	-	403 467
Vat receivable	10 731 280	-	10 731 280
Total other Receivables	17 839 745	10 000	17 505 710
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.			
Total Trade and other receivables	225 398 092	88 872 177	136 201 879
as at June 2014			
Service debtors			
Water and Sewerage	166 710 220	75 655 325	91 054 895
Direct Deposits	(426 628)		(426 628)
Total	166 283 592	75 655 325	90 628 267
Other receivables			
Umngeni water debtor	5 730 444	-	5 730 444
Accrued interest	80 137	-	80 137
Ilembe Enterprise	402 924	-	402 924
Outstanding deposits	996 961	-	996 961
Other debtors	11 748 661	-	11 748 661
Acknowledgement Of Debts	489 679	-	489 679
Other receivables	19 448 807	-	19 448 807
Total Trade and other receivables	185 732 399	75 655 325	110 077 074

Summary of Debtors by Customer Classification	Residential	Industrial/Commercial	National and Provincial Government
	R	R	R
as at 30 June 2015			
Current (0 – 30 days)	10 383 192.40	989 034	1 628 942
31 - 60 Days	8 758 160	2 586 947	1 438 393
61 - 90 Days	7 724 820	470 919	658 317
91 - 120 Days	6 892 410	151 941	524 142
121 - 365 Days	7 313 555	125 132	478 212
+ 365 Days	150 016 354	2 577 137	6 858 070
Sub-total	191 088 492	6 901 111	11 586 076
Less: Provision for doubtful debts	(88 862 177)	-	-
Total debtors by customer classification	102 226 315	6 901 111	11 586 076
at 30 June 2014			
Current (0 – 30 days)	14 935 310	476 654	1 008 243
31 - 60 Days	16 524 318	306 063	809 876
61 - 90 Days	5 754 688	386 048	468 406
91 - 120 Days	3 851 525	102 493	387 334
121 - 365 Days	5 204 140	309 096	274 236
+ 365 Days	109 146 048	2 358 672	4 407 072
Sub-total	155 416 028	3 939 025	7 355 167
Less: Provision for doubtful debts	(75 655 325)		
Total debtors by customer classification	79 760 703	3 939 025	7 355 167

	2015 R	2014 R
Water and Severage: Ageing		
Current (0 – 30 days)	13 001 169	16 420 207
31 - 60 Days	12 783 500	17 640 256
61 - 90 Days	8 854 057	6 609 142
91 - 120 Days	7 568 493	4 341 352
121 - 365 Days	7 916 899	5 787 472
+ 365 Days	159 451 561	115 011 791
Total	209 575 679	166 710 220

Reconciliation of the doubtful debt provision

	2015 R	2014 R
Balance at beginning of the year	75 655 325	75 694 159
Contributions to provision	40 409 419	18 647 232
Bad debts recovered	(3 402 441)	3 242 654
Doubtful debts written off against provision	(23 800 126)	(21 828 720)
Balance at end of year	88 862 177	75 655 325

3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2015 R	2014 R
Petty cash and cash on hand	24 000	24 000
Bank statement balance	31 839 096	44 814 379
	31 863 096	44 838 379

The Municipality has the following bank accounts: -

Water Bank Account

ABSA Bank Account - Durban Branch
Account Number 4057878321 - Current Account

	2015 R	2014 R
Cash book balance at beginning of year	3 862 941	11 690 568
Cash book balance at end of year	1 428 369	3 862 941
Bank statement balance at beginning of year	3 190 450	10 665 280
Bank statement balance at end of year	1 863 088	3 190 450

Salaries Bank Account

First National Bank - Durban Branch
Account Number 62008302385 - Current Account

	2015 R	2014 R
Cash book balance at beginning of year	271 645	51 413
Cash book balance at end of year	109 274	271 645
Bank statement balance at beginning of year	271 645	51 403
Bank statement balance at end of year	109 404	271 645

Main Bank Account

First National Bank Account - Durban Branch
Account Number 50851211546 : Current Account

	2015 R	2014 R
Cash book balance at beginning of year	1 640 820	1 251 477
Cash book balance at end of year	7 509 528	1 640 820
Bank statement balance at beginning of year	2 397 916	1 275 920
Bank statement balance at end of year	7 854 676	2 397 916

Revenue Bank Account

First National Bank - Durban Branch
Account Number 62409366722 : Current Account

	2015 R	2014 R
Cash book balance at beginning of year	2 632 166	789 588
Cash book balance at end of year	1 677 072	2 632 166
Bank statement balance at beginning of year	2 734 324	819 057
Bank statement balance at end of year	1 747 076	2 734 324

Projects Bank Account

First National Bank - Durban Branch
Account Number 62046718641 - Current Account

	2015 R	2014 R
Cash book balance at beginning of year	9 063 597	406 572
Cash book balance at end of year	1 507 621	9 063 597
Bank statement balance at beginning of year	9 063 597	406 572
Bank statement balance at end of year	1 507 621	9 063 597
Inter Bank Transfers	-	-

	2015 R	2014 R
Investment Current Account *ABSA Bank Account - Durban Branch* *Account Number 9114541258 : Call Account*		
Bank statement balance at the begining of the year	110 053	104 539
Bank statement balance at the end of the year	111 679	107 817
Investment Current Account *ABSA Bank Account - Durban Branch* *Account Number 9183363524 : Call account*		
Bank statement balance at the begining of the year	20 565	19 999
Bank statement balance at the end of the year	21 302	20 565
Investment Current Account *ABSA Bank Account - Durban Branch* *Account Number 9095950633 : Call Account*		
Bank statement balance at the begining of the year	16 896	16 444
Bank statement balance at the end of the year	17 502	16 896
Investment Current Account *ABSA Bank Account - Durban Branch* *Account Number 9216956711 - Call Account*		
Bank statement balance at the begining of the year	21 693 144	1 611 662
Bank statement balance at the end of the year	11 816	21 693 144
Investment Current Account *First National Bank Account - Durban Branch* *Account Number 61085067093 : Call Account*		
Bank statement balance at the begining of the year	1 095	54 884
Bank statement balance at the end of the year	10 289 249	1 095
Investment Current Account *First National Bank Account - Durban Branch* *Account Number 74104346206 : Call Account*		
Bank statement balance at the begining of the year	455 540	433 943
Bank statement balance at the end of the year	455 540	455 540
Investment Current Account *First National Bank Account - Durban Branch* *Account Number 74453548694 : Call Account*		
Bank statement balance at the begining of the year	669 084	-
Bank statement balance at the end of the year	-	669 084
Investment Current Account *First National Bank* *Account Number 62313562309 : Call Account*		
Bank statement balance at the begining of the year	778 933	4 521 993
Bank statement balance at the end of the year	7 626 776	778 933

ILEMBE DISTRICT MUNICIPALITY
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As at 30 June 2015

	2015 R	2014 R
Investment Current Account *First National Bank Account - Durban Branch* *Account Number 62129309937 : Call Account*		
Bank statement balance at the begining of the year	1 160	40 876
Bank statement balance at the end of the year	1 222	1 160
Investment Current Account *Standard Bank Account - Durban Branch* *Account Number 293302 : Call Account*		
Bank statement balance at the begining of the year	-	1 948 834
Bank statement balance at the end of the year	-	-
Investment Current Account *Investec Bank Account - Durban Branch* *Account Number 50003100564 : Call Account*		
Bank statement balance at the begining of the year	3 201 377	-
Bank statement balance at the end of the year	-	3 201 377
Investment Current Account *Rand Merchant Bank Account* *Account Number XS021900669 : Call Account*		
Bank statement balance at the begining of the year	210 836	-
Bank statement balance at the end of the year	222 149	210 836
Petty cash and cash on hand	24 000	24 000
Total Investments	18 767 233	27 156 447
Bank Statement Balance	13 081 864	17 681 932
Cash book balance at beginning of year	17 471 168	14 189 616
Cashbook balance at year end	12 255 863	17 471 168

4 TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2015	2014
KwaDukuza Municipality	-	772 426
Ndwedwe Town Development	217 256	
Department of Water Affairs (Emergency Drought Relief)	20 034 984	
Municipal Infrastructre Grant	11 905 884	
Municipal Water Infrastructure Grant	14 787 180	
Department of Water Affairs (LTBWSS)	27 240 702	18 674 083
Total Other Debtors	74 186 007	19 446 509

5 OTHER NON-CURRENT FINANCIAL ASSETS

	2015	2014
Investments in municipal entity - Enterprise Ilembe Development Agency	100	100

6 INVENTORIES

	2015 R	2014 R
Opening balance of inventories:	7 078 439	5 062 183
Consumable stores - at Net Replacement Cost	6 815 465	4 770 977
Water	262 974	291 206
Movements:	7 862 652	2 016 256
Consumable stores	7 707 821	2 044 488
Water	154 830	(28 232)
Closing balance of inventories:	14 941 091	7 078 439
Consumable stores	14 523 286	6 815 465
Water	417 804	262 974

7 NON-CURRENT RECEIVABLES

	2015 R	2014 R
Staff loans	236 494	253 801
Less: Provision for bad debts	(236 494)	(236 494)
Total	-	17 307

These loans were as a result of bursaries granted to certain staff members as part of a bursary scheme approved by council in previous financial years.

8 INVESTMENTS

	2015 R	2014 R
Financial Instruments		
ABSA zero coupon investment	22 982 423	21 549 063

This investment has been coded as security against the long term loan from ABSA disclosed in Note 15