



GERT SIBANDE DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2015

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity	Municipality
Speaker	Dlamini ES
Executive Mayor	Nhlabathi MPP
Chief Whip	Mnisi TA
Mayoral committee	Maboa-Boltman NF Maboea SA Magagula MP Motha VM Nyembe FM Zuma NG
Councillors	Bongwe JS Bosch PR Brussow JLI De Ville JR Dube JJ Greyling GS Joubert LK Kubheka MN Labuschagne PJ Madonsela EM Mahlangu BD Mahlangu H Makola MB Malatsi PV Malinga VT Manzi NE Masango SA Masina LL Maseko BP Mkhwanazi LVA Mkhwanazi ZG Mlotshwa TL Morajane CM Motha TW Mtshali BH Ndinisa BJ Nhlapo NS Nkosi AD Nkosi VL Puwani BS Shiba BP Shongwe MD Soko JP Thwala DM Tsetetsi MP Weber WL Zacarias SM Zwane L Zwane TE
Grading of local authority	3
Chief Finance Officer (CFO)	Singh AY
Accounting Officer	Habile CA

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General Information

Registered office	Cnr Joubert & Oosthuizen Street Ermelo Mpumalanga 2351
Business address	Cnr Joubert & Oosthuizen Street Ermelo Mpumalanga 2351
Postal address	PO Box 1748 Ermelo Mpumalanga 2350
Bankers	ABSA Bank
Auditors	Auditor General Of South Africa
Attorneys	Fluxmans Attorneys
Nature of business and principal activities	A Category C Municipality established in terms of the Structures Act 117 of 1998 which execute some of the functions of Local Government (MP301)
The following is included in the scope of operation	Local Government - Services delivered in Mpumalanga

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Abbreviations

COGTA	Mpumalanga Provincial Department of Co-operative Governance and Traditional Affairs
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
VAT	Value Added Tax

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Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Current Assets			
Cash and cash equivalents	3	30 995 199	13 883 015
Other receivables	5	761 575	523 783
Inventories	4	33 698 935	45 649 126
Receivables from exchange transactions	6	107 988	82 115
Receivables from non-exchange transactions	7	8 135 242	11 520 353
VAT receivable	8	5 950 504	5 975 264
		79 649 443	77 633 656
Non-Current Assets			
Investment property	9	13 084 414	13 518 177
Property, plant and equipment	10	317 519 908	332 442 389
Intangible assets	11	280 802	476 021
Heritage assets	12	154 250	154 250
Investment in Municipal Entities	13	430 063	24 478 979
		331 469 437	371 069 816
Total Assets		411 118 880	448 703 472
Liabilities			
Current Liabilities			
Financial liabilities	14	4 104 383	7 844 506
Finance lease obligation	15	-	6 807 754
Payables from exchange transactions	16	44 812 428	67 342 650
VAT payable	17	179 767	-
Unspent conditional grants and receipts	18	2 429 866	1 198 650
		51 526 444	83 193 560
Non-Current Liabilities			
Financial liabilities	14	-	4 104 383
Finance lease obligation	15	-	15 871 136
Retirement benefit obligation	19	301 000	287 000
Deferred gain on sale and leaseback	20	-	2 528 600
		301 000	22 791 119
Total Liabilities		51 827 444	105 984 679
Net Assets		359 291 436	342 718 793
Accumulated surplus		359 291 436	342 718 793

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Statement of Financial Performance for the year ended 30 June 2015

Figures in Rand	Note(s)	2015	2014
Revenue			
Revenue from exchange transactions			
Income from municipal entities	22	5 564 215	6 123 298
Interest received - investment trade and otehr receivables	23	3 140 041	3 357 126
Other income	24	2 715 034	2 418 375
Health income		369 174	-
Rental income	25	2 020 000	2 020 000
Total revenue from exchange transactions		13 808 464	13 918 799
Revenue from non-exchange transactions			
Transfer revenue			
Government grants and subsidies	26	296 130 794	292 700 637
Total revenue	27	309 939 258	306 619 436
Expenditure			
Contracted services	28	(2 587 326)	(1 953 386)
Depreciation and amortisation	29	(20 459 397)	(19 579 695)
Employee related cost	30	(95 214 501)	(84 829 904)
Finance costs	31	(5 541 618)	(6 748 420)
General expenses	32	(34 864 205)	(30 285 660)
Grants and subsidies	33	(120 851 446)	(184 001 182)
Impairment loss	34	-	(2 898 567)
Remuneration of councillors	35	(10 468 612)	(9 974 336)
Repairs and maintenance	36	(4 420 342)	(3 352 118)
Total expenditure		(294 407 447)	(343 623 268)
Operating surplus (deficit)		15 531 811	(37 003 832)
Gain\(\loss) on disposal of assets		1 040 827	(22 819)
Surplus/(deficit) for the year		16 572 638	(37 026 651)

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Statement of Changes in Net Assets for the year ended 30 June 2015

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	394 490 619	394 490 619
Adjustments		
Correction of errors	(14 745 173)	(14 745 173)
Balance at 01 July 2013 as restated*	379 745 446	379 745 446
Changes in net assets		
Deficit for the year	(37 026 653)	(37 026 653)
Total changes	(37 026 653)	(37 026 653)
Balance at 01 July 2014	342 718 798	342 718 798
Changes in net assets		
Surplus for the year	16 572 638	16 572 638
Total changes	16 572 638	16 572 638
Balance at 30 June 2015	359 291 436	359 291 436

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Cash Flow Statement for the year ended 30 June 2015

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Sale of goods and services		3 515 390	-
Grants		297 362 010	281 826 664
Interest income		3 140 041	3 357 126
Other receipts		4 735 034	7 687 311
Income from municipal entities		5 564 215	6 063 978
		<u>314 316 690</u>	<u>298 935 079</u>
Payments			
Employee costs		(105 669 113)	(91 883 764)
Suppliers		(173 123 583)	(217 800 137)
Finance costs		(813 093)	(1 445 683)
Contract Services		-	(1 953 386)
		<u>(279 605 789)</u>	<u>(313 082 970)</u>
Net cash flows from operating activities	38	<u>34 710 901</u>	<u>(14 147 891)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(5 377 866)	(18 204 087)
Proceeds from sale of property, plant and equipment	10	1 480 456	(2)
Purchase of other intangible assets	11	(35 000)	(310 339)
Proceeds from sale of other intangible assets	11	65 305	-
Movement in investments in municipal entities		24 048 909	721 970
Net cash flows from investing activities		<u>20 181 804</u>	<u>(17 792 458)</u>
Cash flows from financing activities			
Decrease in long term loans		(7 844 506)	(7 245 671)
Movement in deferred gain on sale and leaseback		(2 528 600)	(388 424)
Movement in finance lease interest		-	(5 302 737)
Finance lease payments		(27 407 415)	(1 410 327)
Net cash flows from financing activities		<u>(37 780 521)</u>	<u>(14 347 159)</u>
Net increase/(decrease) in cash and cash equivalents		17 112 184	(46 287 508)
Cash and cash equivalents at the beginning of the year		13 883 015	60 170 523
Cash and cash equivalents at the end of the year	3	<u>30 995 199</u>	<u>13 883 015</u>

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Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Health income	-	529 600	529 600	369 174	(160 426)	Appendix E(1)
Rental income	-	1 515 000	1 515 000	2 020 000	505 000	Appendix E(1)
Income from municipal entities	-	40	40	5 564 215	5 564 175	Appendix E(1)
Other income	2 038 160	355 550	2 393 710	2 715 034	321 324	Appendix E(1)
Interest received - investment	3 420 000	(767 000)	2 653 000	3 140 041	487 041	Appendix E(1)
Total revenue from exchange transactions	5 458 160	1 633 190	7 091 350	13 808 464	6 717 114	
Revenue from non-exchange transactions						
Taxation revenue						
Government grants and subsidies	381 781 000	(72 701 350)	309 079 650	296 130 794	(12 948 856)	Appendix E(1)
Total revenue	387 239 160	(71 068 160)	316 171 000	309 939 258	(6 231 742)	
Expenditure						
Personnel	(107 136 870)	6 263 510	(100 873 360)	(95 214 501)	5 658 859	Appendix E(1)
Remuneration of councillors	(12 412 850)	107 600	(12 305 250)	(10 468 612)	1 836 638	Appendix E(1)
Depreciation and amortisation	(18 745 970)	813 450	(17 932 520)	(20 459 397)	(2 526 877)	Appendix E(1)
Finance costs	(3 550 800)	2 743 600	(807 200)	(5 541 618)	(4 734 418)	Appendix E(1)
Repairs and maintenance	(4 221 460)	(495 790)	(4 717 250)	(4 420 342)	296 908	Appendix E(1)
Contracted services	(1 910 000)	(710 900)	(2 620 900)	(2 587 326)	33 574	Appendix E(1)
Grants and subsidies paid	(220 576 730)	71 862 731	(148 713 999)	(120 851 446)	27 862 553	Appendix E(1)
General expenses	(28 551 470)	(7 604 150)	(36 155 620)	(34 864 205)	1 291 415	Appendix E(1)
Total expenditure	(397 106 150)	72 980 051	(324 126 099)	(294 407 447)	29 718 652	
Operating surplus	(9 866 990)	1 911 891	(7 955 099)	15 531 811	23 486 910	
Gain on disposal of assets and liabilities	-	-	-	1 040 827	1 040 827	Appendix E(1)
Surplus before taxation	(9 866 990)	1 911 891	(7 955 099)	16 572 638	24 527 737	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(9 866 990)	1 911 891	(7 955 099)	16 572 638	24 527 737	

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Appropriation Statement for the year ended 30 June 2015

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments and budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Investment revenue	3 420 000	(767 000)	2 653 000	-	-	2 653 000	3 140 041		487 041	118 %	92 %
Transfers recognised - operational	381 781 000	(72 701 350)	309 079 650	-	-	309 079 650	296 130 794		(12 948 856)	96 %	78 %
Other own revenue	2 038 160	2 400 190	4 438 350	-	-	4 438 350	10 668 423		6 230 073	240 %	523 %
Total revenue (excluding capital transfers and contributions)	387 239 160	(71 068 160)	316 171 000	-	-	316 171 000	309 939 258		(6 231 742)	98 %	80 %
Employee Cost	(107 136 870)	5 503 510	(101 633 360)	-	760 000	(100 873 360)	(95 214 501)		5 658 859	94 %	89 %
Remuneration of councillors	(12 412 850)	(427 400)	(12 840 250)	-	535 000	(12 305 250)	(10 468 612)		1 836 638	85 %	84 %
Depreciation and asset impairment	(18 745 970)	813 450	(17 932 520)			(17 932 520)	(20 459 397)		(2 526 877)	114 %	109 %
Finance charges	(3 550 800)	2 720 600	(830 200)	-	23 000	(807 200)	(5 541 618)		(4 734 418)	687 %	156 %
Transfers and grants	(220 576 730)	71 862 731	(148 713 999)	-	-	(148 713 999)	(120 851 446)		27 862 553	81 %	55 %
Other expenditure	(34 682 930)	(7 492 840)	(42 175 770)	-	(1 318 000)	(43 493 770)	(41 871 873)		1 621 897	96 %	121 %
Total expenditure	(397 106 150)	72 980 051	(324 126 099)	-	-	(324 126 099)	(294 407 447)		29 718 652	91 %	74 %
Surplus/(Deficit)	(9 866 990)	1 911 891	(7 955 099)	-	-	(7 955 099)	15 531 811		23 486 910	(195)%	(157)%
Gain on disposal of assets	-	-	-	-	-	-	1 040 827		1 040 827	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	(9 866 990)	1 911 891	(7 955 099)	-	-	(7 955 099)	16 572 638		24 527 737	(208)%	(168)%
Surplus/(Deficit) for the year	(9 866 990)	1 911 891	(7 955 099)	-	-	(7 955 099)	16 572 638		24 527 737	(208)%	(168)%

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. s28 and budget)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources										
Total capital expenditure	(12 000 000)	4 650 000	(7 350 000)	-	-	(7 350 000)	(5 412 865)	1 937 135	74 %	45 %
Sources of capital funds										
Internally generated funds	12 000 000	(4 650 000)	7 350 000	-	-	7 350 000	5 412 865	(1 937 135)	74 %	45 %
Cash flows										
Net cash from (used) operating	34 710 901	(14 147 891)	20 563 010	-	-	20 563 010	34 710 901	14 147 891	169 %	100 %
Net cash from (used) investing	20 181 804	(17 792 458)	2 389 346	-	-	2 389 346	20 181 804	17 792 458	845 %	100 %
Net cash from (used) financing	(37 780 521)	(14 347 159)	(52 127 680)	-	-	(52 127 680)	(37 780 521)	14 347 159	72 %	100 %
Net increase/(decrease) in cash and cash equivalents	17 112 184	(46 287 508)	(29 175 324)	-	-	(29 175 324)	17 112 184	46 287 508	(59)%	100 %
Cash and cash equivalents at the beginning of the year	13 883 015	60 170 523	74 053 538	-	-	74 053 538	13 883 015	(60 170 523)	19 %	100 %
Cash and cash equivalents at year end	30 995 199	13 883 015	44 878 214	-	-	44 878 214	30 995 199	13 883 015	69 %	100 %

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies for the year ended 30 June 2015

1. Presentation of Annual Financial Statements

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

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

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

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Receivables

The municipality 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 municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables 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 balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts or recoverable service amount 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.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. At each reporting date an assessment should be undertaken to determine whether there is any indication that any items of Property, plant and equipment may be impaired by reviewing external and internal source or information which indicates that impairments may have occurred.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies for the year ended 30 June 2015

1.2 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 municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19 - Retirement benefit obligations.

Effective interest rate

The municipality used the government bond rate to discount future cashflows.

Allowance for doubtful debts

On receivables 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 receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

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

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies for the year ended 30 June 2015

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current 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 or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

In calculating the new depreciation as a result of change in estimate the calculation will be undertaken by dividing the carrying amount by the remaining useful life.

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 at no cost or for a nominal cost, 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 assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

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 municipality 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. Work-in-progress is recognised by the municipality as expenses as incurred on a capital project. Work-in-progress is transferred to the related item of property, plant and equipment when it is technically complete. Work-in-progress is not depreciated.

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

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

The useful lives of items of property, plant and equipment have been by management by using industry norms and are shown below:

Item	Average useful life in years
Land	0
Building	
• Office building	30
• Laborotories	30
• Disaster centres	30
• Workshops/store rooms	30
• Non residential perimeter protection	25
• Internal road	20
• Stormwater channel	20
Plant and equipment	5

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Accounting Policies for the year ended 30 June 2015

1.4 Property, plant and equipment (continued)

Furniture and fixtures	
• Office furniture	7
• Elevator system	20
• Transformer	50
• Building air condition system	15
• Electric wire and power distribution equipment(generators)	7
Motor vehicles	
• Motor vehicles	7
• Construction vehicles	10
Office equipment	7
IT equipment	5
Lab equipment	7
Communication equipment	2
Park facilities	
• Public parking	30
• Carports/Garage/Shelters	15
Investment property	
• Leased building	30
Leased copiers	3
Specialised vehicles	
• Emergency vehicles	10
Heritage	0

The depreciation method of each asset is 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.

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 or disposal of the asset.

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

Work-in-progress is recognised by the municipality as expenses as incurred on a capital project. Work-in-progress is transferred to the related item of property, plant and equipment when it is technically complete. Work-in-progress is not depreciated.

1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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1.5 Intangible assets (continued)

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	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 Heritage assets

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

Recognition

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

Where the municipality hold a heritage asset, but on initial recognition, it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 10 - Heritage assets.

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1.6 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired at no cost, or at a nominal cost, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

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

Impairment

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

Derecognition

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

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

1.7 Investments in controlled entities

Eastvaal Partnership

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

The cost of an investment in controlled entity is the aggregate of:

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

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

Owing to the pending sale of the Secunda properties their will be consequential divestment in the partnership.

Eastvaal Development Trust

Gert Sibande District Municipality is the 100% beneficiary of the trust. The investment in the Eastvaal Development Trust is carried at fair value. this fair value of the trust is determined by reference to the net assets of the trust

1.8 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.

1.9 Leases

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

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

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1.9 Leases (continued)

Finance leases - lessee

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

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

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

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

1.10 Inventories

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

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

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.

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1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

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.

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1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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.

1.12 Impairment of non-cash-generating assets

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

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

Identification

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

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

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

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1.12 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 asset is determined using the following approach:

Depreciated replacement cost approach

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

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

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.

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

Reversal of an impairment loss

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

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

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

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.

1.13 Accumulated surplus

The accumulated surplus/deficit represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit.

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1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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1.14 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

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

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

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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1.15 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 municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

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

Provisions are not recognised for future operating deficits.

If the municipality 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 the municipality:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future event not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
 - the amount of the obligation can not be measured with sufficient reliability.

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

1.16 Revenue from exchange transactions

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

Measurement

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

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1.16 Revenue from exchange transactions (continued)

Sale of goods

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

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the 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 entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest, royalties and dividends

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

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

Revenue shall be recognised using the following accounting treatments:

Interest shall be recognised by using the effective interest rate method as set out in the Standard of GRAP on Financial Instruments.

Dividends or similar distributions shall be recognised when the owner's right to receive payment has been established.

1.17 Revenue from non-exchange transactions

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

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

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

Government grants

Government grants are recognised as revenue when:

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

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

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

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

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies for the year ended 30 June 2015

1.18 Borrowing costs

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

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

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 any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- 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.
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for the specified purpose
- 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
- a grant by the municipality otherwise than in accordance with the Municipal Financial Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of change in net assets 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 change in net assets.

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 change in net assets 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 change in net assets.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of change in net assets and where recovered, it is subsequently accounted for as revenue in the Statement of change in net assets.

1.23 Budget information

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

The approved budget covers the fiscal period from 01 July 2014 to 30 June 2015.

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 22 & 25.

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies for the year ended 30 June 2015

1.24 Related parties

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 versa versa, or an entity that is subject to common control, or joint control.

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

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

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

1.25 Value Added Tax

The municipality accounts for value added taxation on the payment basis.

1.26 Offsetting

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

1.27 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.28 Grants in aid

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

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

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

1.29 Events after the reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies for the year ended 30 June 2015

1.30 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for
- Administrative purposes, or
- Sale in the ordinary course of operations.

The Municipality measures investment property at cost including transaction costs once it meets the definition of investment property.

The cost of self-constructed investment property is the cost at date of completion.

1.31 Derecognition and Impairment

Investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in the Statement of Financial Performance in the period of the retirement or disposal. Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in the Statement of Financial Performance when the compensation becomes receivable.

The Municipality tests for impairment where there is an indication that a property may be impaired. An assessment of whether there is an indication of possible impairment is done during each reporting period. Where the carrying amount of an item of an investment property 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. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognized in the carrying amount of the investment property, the carrying amount of the replaced part is derecognized.

1.32 Subsequent Measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Transfers to or from investment property are made only when there is a change in use.

1.33 Depreciation

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. The annual depreciation rates are based on the following estimated average asset lives:

1.34 Item Useful life

Property - land indefinite

Property - buildings 10 -30 years

1.35 Investment in Municipal Entities

Investments in municipal entities are carried at fair value. The fair value of the trust is determined by reference to the net assets of the entities.

1.36 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.

1.37 Initial recognition

Financial instruments are initially recognized at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value. Financial Instruments are categorized according to their nature as either financial instruments at fair value, held at amortized cost, or held at cost. The classification depends on the purpose for which the investments were acquired.

1.38 Debtors

Debtors are initially recognized at fair value plus any transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognized in the Statement of Financial Performance.

An estimate is made for doubtful debts based on the categorization of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified in the Statement of Financial Performance.

1.39 Creditors

Trade payables are initially measured at fair value plus any transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method.

1.40 Cash and cash equivalents

These are initially and subsequently recorded at fair value. For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments, and bank overdrafts. Bank overdrafts are recorded based on the facility utilized. Finance charges on bank overdraft are expensed as incurred.

1.41 Borrowings and other financial liabilities

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of financial performance over the period of the borrowings using the effective interest method. Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilized solely for funding capital projects and the book value is disclosed at amortized cost. Other financial liabilities are carried at amortized cost.

1.42 Loans and receivables

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in the Statement of Financial Performance for the period. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

1.43 LEASES

1.43.1 Operating leases - The Municipality as lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of financial performance on a straight-line basis over the period of the lease.

1.43.2 Comparatives information

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

1.43.3 Prior year comparatives

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 there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly

1.43.4 Revenue from non-exchange transactions

This refers to transactions where the municipality received revenue from another entity without giving approximately equal value in exchange. Revenue from property rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Penalty interest on unpaid rates is recognized on a time proportion basis with reference to the principal amount and the effective interest rate applicable.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognized bases on management's best estimate of the probable inflows. Donations are recognized on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the consideration received or receivable. Contributed property, plant and equipment are recognized when ownership of the items of property, plant and equipment is transferred to the municipality.

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

Figures in Rand

2015

2014

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 5 (as revised 2013) : Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

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

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

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

The municipality has adopted the standard for the first time in the 2015 annual financial statements.

The impact of the standard is not material.

GRAP 100 (as revised 2013) : Discontinued operations

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively

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

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

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

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.

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

2. New standards and interpretations (continued)

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

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

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements. The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the amendment will have a material impact on the municipality's 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 1 April 2015..

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

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

GRAP 107: Mergers

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

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

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

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

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

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's 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

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

2. New standards and interpretations (continued)

- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual 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 is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

IGRAP 11: Consolidation – Special purpose entities

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

2. New standards and interpretations (continued)

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This Interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

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

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

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

2. New standards and interpretations (continued)

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

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

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

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

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

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

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

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

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

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Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

2. New standards and interpretations (continued)

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

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

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

GRAP32: Service Concession Arrangements: Grantor

The standard applies to 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 providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

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

The municipality 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 annual financial statements.

GRAP108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts. Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments.

Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised. The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

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

The municipality 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 annual financial statements.

GERT SIBANDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements for the year ended 30 June 2015

2. New standards and interpretations (continued)

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

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

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

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

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

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

The municipality 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 annual financial statements.

Directive 11 : Changes in measurement bases following the initial adoption of standards of GAAP

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

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

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

The expected impact of the directive is [discuss the impact that Standard/Interpretation/Amendment is expected to have on the municipality's annual financial statements.

3. Cash and cash equivalents

Cash and cash equivalents consist of: