MADIBENG LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services
The following is included in the scope of operation	
Speaker	Cllr DS Maimane: (appointed 21 January 2014)
Executive Mayor	Cllr FM Mangoathe: (appointed 21 January 2014)
Single Whip	Cllr S Klaas: (appointed 21 January 2014)
Mayoral committee	Cllr. RL Maluleke Cllr. NM Maswanganyi Cllr. WS Molefe Cllr. BG Montsho Cllr. MG Nqetho Cllr. SDN Nthangeni Cllr. NR Rakolle
Councillors	Cllr. MZ Banda Cllr. EJ Barlow Cllr. LJ Basson: (Resigned 20 May 2014) Cllr. GD Betha Cllr. TS Bogale Cllr. RNJ Breytenbach Cllr. S Davids Cllr. BP Eckard: (Appointed 18 June 2014) Cllr. RB Ellis Cllr. RD Lekoane Cllr. EDF Lourens Cllr. P Maakane Cllr. MM Machette Cllr. MP Magongwa Cllr. BD Mahlaole Cllr. PB Makgabo Cllr. ML Makgale Cllr. PB Makhongela Cllr. SS Malete Cllr. P Maliwa Cllr. PD Mamogwe Cllr. P Mantu Cllr. NM Maringa Cllr. JS Masina Cllr. K Matli Cllr. SA Matome Cllr. SM Maunatlala Cllr. LE Meso Cllr. DP Mhlanga Cllr. JT Moabi Cllr. ME Moatshe Cllr. TM Modiha Cllr. ETM Modise Cllr. RK Mogotsi Cllr. SB Molelu Cllr. MS Moloi Cllr. S Monnakgotla

General Information

	Cllr. NJ Montsho Cllr. PN More Cllr. FJ Motepe Cllr. MW Motlhasedi Cllr. G Motlhokapudi Cllr. S Mpongwana Cllr. S Ngubegusha Cllr. LL Nkhoma Cllr. I Nkosi Cllr. KS Ntshabele Cllr. II Padi Cllr. AG Peplar Cllr. HT Phalwane Cllr. PA Phetlhe Cllr. J Pieterse Cllr. IS Raseroke Cllr. GJ Rossouw Cllr. J Sefudi Cllr. CD Sekhoto Cllr. M Serero Cllr. WI Strauss Cllr. AM Tshidi Cllr. TPJ Tsotetsi Cllr. EE Tanke Cllr. EM Thabane Cllr. MP Tlhopane
Grading of local authority	4 (medium capacity)
Accounting Officer	T Motlashuping
Chief Financial Officer (CFO)	T Nkuna
Registered office	53 Van Velden Street Brits 0250
Business address	53 Van Velden Street Brits 0250
Postal address	PO Box 106 Brits 0250
Bankers	ABSA Bank Limited
Auditors	Auditor General

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the section 126(1) of th Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

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

The annual financial statements set out on page 1 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 28 August 2014 and were signed on its behalf by:

Accounting Officer
Designation

Audit Committee Report

In terms of the section 166 of Municipal Finance Management Act (Act no.56 of 2003) an Audit Committee is established to serve as an independent governance structure whose function is to provide an oversight role on the system of internal control, financial reporting processes, risk management, governance and the organisation's process for monitoring compliance with laws and regulations and the code of conducts. Furthermore, the Audit Committee assists the Accounting Officer in the effective execution of his responsibilities with the ultimate aim of the achievement of the organisation's objectives and goals. The Audit Committee has adopted its written terms of reference approved by the Council.

We are pleased to present our report for the financial year ended 30 June 2014.

Audit committee members and attendance

The audit committee consists of four (4) members who have been appointed by the council in November 2011. During the financial year, four (4) ordinary meetings and five (5) special meetings were held to deal with urgent matters:

Name of member	Number of meetings attended
HB Mathibela (Acting Chairperson)	9
MA Mmapheto	9
Z Fihlani	8
FJ Van Westhuizen	8

Effectiveness of internal control

The Audit Committee reviewed the work of Internal Audit in terms of the approved Audit Plan. Based on the work of Internal Audit Function and the report of the Auditor-General, there was a breakdown of internal controls reported by auditors and management has made commitment to address the shortcomings. Be that as it may, the Audit Committee can assert that the internal controls implemented by management are partially effective to assist management in achieving the municipality's strategic objectives and goals.

Effectiveness of internal Audit

The Audit Committee is of the opinion that Internal Audit operates effectively under the circumstances to meet its mandate. However, the Committee has noted with concern the staff shortages and budget to complement its capacity. The resource constraints have been communicated to management for further consideration. Additional resources have been made available by management at the tail end by appointing co-sourced service provider to assist to finalise the audits in the operational plan. The Audit Committee has considered among others the following activities of Internal Audit:

- Three-year rolling strategic Internal Audit plan and an Annual Internal Audit Plan for the year ending 30 June 2013.
- The Internal Audit Charter.
- Internal Audit reports.

Effectiveness of risk management
The Accounting Officer is responsible for the establishment of an effective system of risk management within the municipality to ensure achievement of desired strategic objectives. Management is responsible for implementing and monitoring the risk management interventions. The municipality conducted a risk assessment and certain additional work in this regard during the financial year. However, of concern to the Audit Committee is the lack of urgency shown by management in capacitating the Risk Management unit as advised by the Audit Committee.

To this effect, the Audit Committee recommends the establishment of a Risk Management unit in line with the municipality's approved organizational structure as approved by Council.

Audit Committee Report

Effectiveness of performanance management system

The municipality has a performance management system and policy approved by Council and performance management has been partially undertaken by the administration. The Committee has considered the reports of Internal Audit for performance management and assert that while progress has been made, more work still needs to be done to improve performance management in the municipality. The Audit Committee wishes to commend the municipality on the cascading down of the performance management system to middle management and lower which bears testimony to the fact that Audit Committee recommendations are given consideration by management.

Furthermore, the Audit Committee noted with concern the non-functionality of the PMS unit and recommends that the municipality intervenes in as far as training intervention is concerned. The Committee wishes to commend the municipality for addressing the challenges encountered by the Performance Management System unit in as far as training interventions are concerned and for the procurement of the required software to assist the unit in the discharge of their function.

Quality of monthly/quarterly financial reporting

The Audit Committee was privy to the monthly financial reports submitted by the Budget and Treasury Office during the period under review. To this end, the Audit Committee is of the opinion that the quality of the reports was acceptable and in line with the requirements of the applicable legislation.

In as far as the financial reports are concerned; the contentious issue of overtime is still a problem for the municipality. Management needs to determine the root cause of the exorbitant overtime the municipality is incurring and the matter needs to be addressed urgently, whether it is through the advertisement of vacant positions or the implementation of a shift system.

Annual financial statements

In fulfilling our responsibilities to review of the Annual Financial Statements, The Audit Committee considered whether they are fairly presented, complete and reflect appropriate accounting principles. Among others the Committee has performed the following:

- Reviewed and discussed with the Accounting Officer and the Chief Financial Officer Auditor the draft Annual Financial Statements.
- Reviewed the resolution of significant and/or unusual accounting and auditing challenges highlighted by management
- Reviewed the statement of disclosure in the draft annual financial statements
- Reviewed unusual circumstances or events reflected in the Draft annual Financial Statements
- Evaluated the requirements of the MFMA and Treasury Regulations as well as certain statements of Generally Recognized Accounting Practice (GRAP)

Appreciation

The Audit Committee expresses its sincere appreciation to the Offices of the Executive Mayor, the Speaker, the Chief Whip, Municipal Manager, Management and all officials for their unwavering support and interest in the activities of the Committee during the year under review. The advice and support of other stakeholders such as the Internal Audit function, Auditor General South Africa, National and Provincial Treasuries is also acknowledged in pursuing the interest of effective Corporate Governance and clean audit outcomes within the municipality.

We extend our gratitude to the Internal Audit unit for their efforts during the year despite resources constraints and other frustrations they might have encountered. The Audit Committee remains confident of the matters raised in this report receiving due consideration and intervention. We are committed to fully execute our oversight function and in strengthening Corporate Governance.

_____

Chairperson of the Audit Committee

Date: _____

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2014.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

7. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

8. Bankers

The municipality banks primarily with ABSA Bank Limited.

9. Auditors

Auditor General will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	8	5 403 952	4 378 811
Other financial assets	6	3 034 500	4 999 019
Receivables from non-exchange transactions	9	31 958 596	13 361 535
VAT receivable	10	2 513 092	1 282 605
Consumer debtors	11	65 884 709	34 473 544
Cash and cash equivalents	12	31 636 027	47 692 209
		140 430 876	**106 187 723**
Non-Current Assets			
Investment property	3	466 341 266	466 341 266
Property, plant and equipment	4	3 960 629 667	4 166 760 294
Heritage assets	5	10 100	10 100
Other financial assets	6	11 733 089	10 986 564
		4 438 714 122	**4 644 098 224**
Non-Current Assets		4 438 714 122	4 644 098 224
Current Assets		140 430 876	106 187 723
Total Assets		**4 579 144 998**	**4 750 285 947**
Liabilities			
Current Liabilities			
Finance lease obligation	14	58 053	662 841
Payables from exchange transactions	17	281 202 590	206 411 869
Consumer deposits	18	12 922 478	12 954 776
Unspent conditional grants and receipts	15	5 754 283	40 150 949
Bank overdraft	12	35 489 536	15 028 394
		335 426 940	**275 208 829**
Non-Current Liabilities			
Other financial liabilities	13	687 424 704	608 256 208
Finance lease obligation	14	-	58 053
Employee benefit obligation	7	130 901 442	110 533 954
Provisions	16	15 129 957	9 655 954
		833 456 103	**728 504 169**
Non-Current Liabilities		833 456 103	728 504 169
Current Liabilities		335 426 940	275 208 829
Total Liabilities		**1 168 883 043**	**1 003 712 998**
Assets		4 579 144 998	4 750 285 947
Liabilities		(1 168 883 043)	(1 003 712 998)
Net Assets		**3 410 261 955**	**3 746 572 949**
Net Assets			
Accumulated surplus		3 410 261 955	3 746 572 949

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Service charges	21	499 534 057	475 373 335
Rental of facilities and equipment		582 630	560 770
Interest received (trading)		44 417 978	54 910 149
Licences and permits		4 554 531	4 641 799
Commissions received		8 963 833	8 119 667
Other income	23	27 252 799	31 978 051
Interest received - investment		3 442 116	16 424 130
Total revenue from exchange transactions		**588 747 944**	**592 007 901**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	193 598 617	176 261 206
Transfer revenue			
Government grants & subsidies	22	550 271 966	491 047 440
Fines		2 469 180	782 714
Total revenue from non-exchange transactions		**746 339 763**	**668 091 360**
		588 747 944	592 007 901
		746 339 763	668 091 360
Total revenue	19	**1 335 087 707**	**1 260 099 261**
Expenditure			
Personnel	25	(292 527 383)	(266 546 032)
Remuneration of councillors	26	(23 887 187)	(22 988 032)
Depreciation and amortisation	30	(398 725 673)	(395 300 743)
Finance costs	31	(88 809 751)	(78 764 162)
Debt impairment	27	(96 083 332)	(398 727 815)
Repairs and maintenance		(58 508 060)	(33 876 627)
Bulk purchases	34	(423 630 003)	(359 599 311)
Contracted services	33	(135 786 924)	(82 165 356)
Grants and subsidies paid		(5 392 417)	(2 119 822)
General expenses	24	(134 267 562)	(91 496 283)
Total expenditure		**(1 657 618 292)**	**(1 731 584 183)**
		-	-
Total revenue		1 335 087 707	1 260 099 261
Total expenditure		(1 657 618 292)	(1 731 584 183)
Operating deficit		**(322 530 585)**	**(471 484 922)**
Actuarial gain/(loss) on post employment benefits		(14 543 223)	3 892 436
Fair value adjustments	29	762 814	596 621
		(13 780 409)	**4 489 057**
Deficit before taxation		(336 310 994)	(466 995 865)
Taxation		-	-
Deficit for the year		**(336 310 994)**	**(466 995 865)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	6 178 539 664	6 178 539 664
Adjustments		
Prior year adjustments	(1 964 970 850)	(1 964 970 850)
Balance at 01 July 2012 as restated*	**4 213 568 814**	**4 213 568 814**
Changes in net assets		
Deficit for the year	(466 995 865)	(466 995 865)
Total changes	(466 995 865)	(466 995 865)
Balance at 01 July 2013	**3 746 572 949**	**3 746 572 949**
Changes in net assets		
Deficit for the year	(336 310 994)	(336 310 994)
Total changes	(336 310 994)	(336 310 994)
Balance at 30 June 2014	**3 410 261 955**	**3 410 261 955**

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Sale of goods and services		429 975 902	385 112 942
Grants		550 271 966	491 047 440
Interest income		3 442 116	16 424 130
Property Rates		177 470 736	162 015 829
Other receipts		27 835 429	31 251 073
		1 188 996 149	1 085 851 414
Payments			
Employee costs		(316 414 570)	(289 534 064)
Suppliers		(717 499 753)	(598 380 032)
Finance costs		(3)	(122 055)
		(1 033 914 326)	(888 036 151)
Total receipts		1 188 996 149	1 085 851 414
Total payments		(1 033 914 326)	(888 036 151)
Net cash flows from operating activities	35	**155 081 823**	**197 815 263**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(192 858 270)	(232 331 561)
Unbundling of Assets		-	(1 787 794)
Proceeds from sale of financial assets		1 980 808	69 211 090
Net cash flows from investing activities		**(190 877 462)**	**(164 908 265)**
Cash flows from financing activities			
Increase other financial liabilities		-	(7 842 753)
Finance lease payments		(721 685)	(737 084)
Net cash flows from financing activities		**(721 685)**	**(8 579 837)**
Net increase/(decrease) in cash and cash equivalents		**(36 517 324)**	**24 327 161**
Cash and cash equivalents at the beginning of the year		32 663 815	8 336 654
Cash and cash equivalents at the end of the year	12	**(3 853 509)**	**32 663 815**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	512 072 763	372 000	**512 444 763**	499 534 057	**(12 910 706)**	Appendix E1
Rental of facilities and equipment	566 216	13 000	**579 216**	582 630	**3 414**	Appendix E1
Interest received (trading)	55 000 000	-	**55 000 000**	44 417 978	**(10 582 022)**	Appendix E1
Licences and permits	4 822 765	-	**4 822 765**	4 554 531	**(268 234)**	Appendix E1
Commissions received	6 000 000	178 100	**6 178 100**	8 963 833	**2 785 733**	Appendix E1
Other income	51 472 944	3 155 360	**54 628 304**	27 252 799	**(27 375 505)**	Appendix E1
Interest received - investment	10 304 175	-	**10 304 175**	3 442 116	**(6 862 059)**	Appendix E1
Total revenue from exchange transactions	**640 238 863**	**3 718 460**	**643 957 323**	**588 747 944**	**(55 209 379)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	251 230 764	-	**251 230 764**	193 598 617	**(57 632 147)**	Appendix E1
Government grants & subsidies	549 416 000	10 796 300	**560 212 300**	550 271 966	**(9 940 334)**	Appendix E1
Transfer revenue						
Fines	524 775	66 000	**590 775**	2 469 180	**1 878 405**	Appendix E1
Total revenue from non-exchange transactions	**801 171 539**	**10 862 300**	**812 033 839**	**746 339 763**	**(65 694 076)**	
'Total revenue from exchange transactions'	640 238 863	3 718 460	**643 957 323**	588 747 944	**(55 209 379)**	Appendix E1
'Total revenue from non-exchange transactions'	801 171 539	10 862 300	**812 033 839**	746 339 763	**(65 694 076)**	Appendix E1
Total revenue	**1 441 410 402**	**14 580 760**	**1 455 991 162**	**1 335 087 707**	**(120 903 455)**	
Expenditure						
Personnel	(288 400 000)	48	**(288 399 952)**	(292 527 383)	**(4 127 431)**	Appendix E1
Remuneration of councillors	(24 497 955)	-	**(24 497 955)**	(23 887 187)	**610 768**	Appendix E1
Depreciation and amortisation	(40 400 000)	-	**(40 400 000)**	(398 725 673)	**(358 325 673)**	Appendix E1
Finance costs	(10 000 000)	-	**(10 000 000)**	(88 809 751)	**(78 809 751)**	Appendix E1
Debt impairment	(185 000 000)	-	**(185 000 000)**	(96 083 332)	**88 916 668**	Appendix E1
Repairs and maintenance	(36 215 000)	(6 542 000)	**(42 757 000)**	(58 508 060)	**(15 751 060)**	Appendix E1
Bulk purchases	(366 000 000)	(12 020 000)	**(378 020 000)**	(423 630 003)	**(45 610 003)**	Appendix E1
Contracted Services	(114 550 000)	(870 000)	**(115 420 000)**	(135 786 924)	**(20 366 924)**	Appendix E1
Grants and subsidies paid	(16 000 000)	11 000 000	**(5 000 000)**	(5 392 417)	**(392 417)**	Appendix E1
General Expenses	(138 391 212)	15 124 192	**(123 267 020)**	(134 267 562)	**(11 000 542)**	Appendix E1
Total expenditure	**(1 219 454 167)**	**6 692 240**	**(1 212 761 927)**	**(1 657 618 292)**	**(444 856 365)**	
	1 441 410 402	14 580 760	**1 455 991 162**	1 335 087 707	**(120 903 455)**	
	(1 219 454 167)	6 692 240	**(1 212 761 927)**	(1 657 618 292)	**(444 856 365)**	
Operating (deficit)/surplus	**221 956 235**	**21 273 000**	**243 229 235**	**(322 530 585)**	**(565 759 820)**	
Actuarial loss on employment benefits	-	-	**-**	(14 543 223)	**(14 543 223)**	Appendix E1
Fair value adjustments	-	-	**-**	762 814	**762 814**	Appendix E1
	-	**-**	**-**	**(13 780 409)**	**(13 780 409)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
	221 956 235	21 273 000	**243 229 235**	(322 530 585)	**(565 759 820)**	
	-	-	**-**	(13 780 409)	**(13 780 409)**	
Surplus/(deficit)	**221 956 235**	**21 273 000**	**243 229 235**	**(336 310 994)**	**(579 540 229)**	
Surplus before taxation	221 956 235	21 273 000	**243 229 235**	(336 310 994)	**(579 540 229)**	
Taxation	-	-	**-**	-	**-**	
Surplus/(deficits) for the year	**221 956 235**	**21 273 000**	**243 229 235**	**(336 310 994)**	**(579 540 229)**	
Capital Expenditures	(221 956 000)	(32 680 400)	**(254 636 400)**	(192 858 270)	**61 778 130**	Appendix E2
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**235**	**(11 407 400)**	**(11 407 165)**	**(529 169 264)**	**(517 762 099)**	
Reconciliation						
Basis difference						
Capital Expenditure				192 858 270		
Actual Amount in the Statement of Financial Performance				**(336 310 994)**		

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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:

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

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

Allowance for slow moving, damaged and obsolete stock

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

Value in use of non-cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment**.**

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and intangible assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. 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 7.

Effective interest rate

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for debt impairment

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. The recoverability percentage on receivables is calculated annual per receivables category.

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.

Fair value

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

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

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

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

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

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

1.4 Property, plant and equipment

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

Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably or fair value.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Average useful life
Land	Indefinete
Buildings	10 - 40
Bins and Containers	13
Plant and machinery	5 - 18
Furniture and fixtures	5 - 23
Motor vehicles	5 - 18
Office equipment	6 - 23
Computer equipment	6 - 13
Infrastructure	
• Electricity	5 - 60
• Roads, pravements, bridges and stormwater	3 -120
• Sanitation	5 - 40
• Water	5 - 100

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.6 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.

Accounting Policies

1.6 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:

Accounting Policies

1.7 Heritage assets

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

Recognition

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

Where the municipality holds a heritage asset, but on initial recognition its does the recognition criteria because it cannot be reliably measured, information on such a heritage assets is disclossed in note 5

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

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

Transfers

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

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

Derecognition

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

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

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.

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Classification

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

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exhange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payable from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Residual interest1	
Residual interest2	

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

Financial liabilities

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

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

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

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.

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.

Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

Operating leases - lessee

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

1.10 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 weighted average cost 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.

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

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

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.11 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 uses 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 municipality does not reduce the carrying amount of an asset below the highest of:

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses 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 municipality estimates the recoverable amount of that asset.

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

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

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

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

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

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

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

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

Redesignation

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

1.12 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.

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

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

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

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

Accounting Policies

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.13 Employee benefits

Short-term employee benefits

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money.

Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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 municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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 municipality recognises 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 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 municipality measures the resulting asset at the lower of:

- the amount determined above; and

Accounting Policies

1.13 Employee benefits (continued)

- 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 municipality determines 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.

The municipality 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, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality 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, the municipality attributes 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, the municipality attributes 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 municipality 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 municipality 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).

Accounting Policies

1.13 Employee benefits (continued)

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

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- festimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those
- terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit
- plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long term employee benefits

The municipality has an obligation to provide long service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long service awards 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.

The municipality recognises the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.14 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the receivable;
- defaults or delinquencies in interest and capital repayments by the receivable;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the receivable to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of municipalities to repay their obligations.

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

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

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Interest, royalties and dividends

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

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

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.16 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Collection charges and penalty interest is recognised 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 the relevant legal requirements (if applicable).

Fines

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

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

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

1.17 Government grants

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

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

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

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

Accounting Policies

1.18 Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.19 Grants in aid

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

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

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

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

Accounting Policies

1.23 Irregular expenditure (continued)

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of ''unauthorised expenditure''

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

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

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

1.24 Use of estimates

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

1.25 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.

1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 01 July 2013 to 30 June 2014.

1.27 Related parties

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

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

Accounting Policies

1.27 Related parties (continued)

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure. Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

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 ordinary course of business are diclosed.

1.28 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

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

1.29 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2. Standards and interpretations

2.1 Standards and interpretations effective in the current year

GRAP 1	Presentation of Financial Statement
GRAP 2	Cash Flow Statement
GRAP 3	Change Accounting Policies, Change in Accountiong estimates and Error
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statement
GRAP 7	Investment in Associates
GRAP 8	Investment in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in hyper Inflationary Economies
GRAP 11	Construction Contacts
GRAP 12	Inventories
GRAP 13	Lease
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of non-cash generating assets
GRAP 23	Revenue from non exchange transaction
GRAP 24	Budget information
GRAP 25	Emplyee Benfits
GRAP 26	Impairment of cash generating assets
GRAP 100	Non-current Assets held for sale and discontiued operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Intruments

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 aremandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2013	Unlikely to have material impact - possible additional disclosures
• GRAP 32: Service concession arrangement: grantor	01 August 2013	Not expected to have an impact
• GRAP 105: Tranfer of function between entities under common control	01 November 2010	Not expected to have an impact
• GRAP 105: Tranfer of function between entities not under common control	01 November 2010	Not expected to have an impact
• GRAP 107: Mergers	01 November 2010	Not expected to have an impact
• GRAP 108: Statutory receivable	01 September 2013	Unlikely to have material impact - possible additional disclosures
• IGRAP 17: Service concession arrangement where a grantor controls a significant residual interest in an assets	01 August 2013	Not expected to have an impact

3. Investment property

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	466 341 266	-	466 341 266	466 341 266	-	466 341 266

Reconciliation of investment property - 2014

	Opening balance	**Total**
Investment property	466 341 266	466 341 266

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	466 341 266	466 341 266

Pledged as security

Carrying value of assets pledged as security:

No assets were pledged as security.

Fair Value of investment property

The investment property as fair valued by an independent valuator. The fair value of investment property was assessed at the end of the financial year and the significant changes in the fair value of the properties was adjusted.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Income and Expenditure

Rental income	582 630	560 770

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

4. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	17 322 810	-	17 322 810	17 322 810	-	17 322 810
Buildings	61 588 409	(9 911 055)	51 677 354	61 588 409	(7 858 719)	53 729 690
Infrastructure	5 011 045 039	(1 819 860 018)	3 191 185 021	4 952 111 187	(1 435 192 560)	3 516 918 627
Community	256 078 563	(61 577 104)	194 501 459	256 078 563	(51 367 707)	204 710 856
Work in progress	489 175 588	-	489 175 588	357 582 114	-	357 582 114
Other property, plant and equipment	39 142 505	(22 375 070)	16 767 435	35 734 381	(19 238 184)	16 496 197
Total	**5 874 352 914**	**(1 913 723 247)**	**3 960 629 667**	**5 680 417 464**	**(1 513 657 170)**	**4 166 760 294**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Transfers**	**Assets written off and other**	**Depreciation**	**Impairment loss**	**Total**
Land	17 322 810	-	-	-	-	-	17 322 81
Buildings	53 729 690	-	-	-	(2 052 336)	-	51 677 35
Infrastructure	3 516 918 627	-	56 801 948	(44 619)	(382 453 109)	(37 826)	3 191 185 02
Community	204 710 856	-	-	-	(9 813 668)	(395 729)	194 501 45
Work in progress	357 582 114	188 395 422	(56 801 948)	-	-	-	489 175 58
Other property, plant and equipment	16 496 197	4 462 848	-	(218 606)	(3 973 004)	-	16 767 43
	4 166 760 294	**192 858 270**	**-**	**(263 225)**	**(398 292 117)**	**(433 555)**	**3 960 629 66**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Transfers**	**Assets written off and other movements**	**Depreciation**	**Impairment loss**	**Total**
Land	17 322 810	-	-	-	-	-	17 322 81
Buildings	55 506 868	-	-	-	(1 777 178)	-	53 729 69
Infrastructure	3 858 683 604	-	37 794 474	-	(378 076 430)	(1 483 021)	3 516 918 62
Community	214 524 523	-	-	-	(9 813 667)	-	204 710 85
Work in progress	163 307 589	232 068 999	(37 794 474)	-	-	-	357 582 11
Other property, plant and equipment	18 821 177	262 562	-	1 287 748	(3 875 290)	-	16 496 19
	4 328 166 571	**232 331 561**	**-**	**1 287 748**	**(393 542 565)**	**(1 483 021)**	**4 166 760 29**

Pledged as security

No assets have been pledged as secuirty.

5. Heritage assets

	2014			2013		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	10 100	-	10 100	10 100	-	10 100

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Heritage assets (continued)

Reconciliation of heritage assets 2014

	Opening balance	Total
Art Collections, antiquities and exhibits	10 100	10 100

Reconciliation of heritage assets 2013

	Opening balance	Total
Art Collections, antiquities and exhibits	10 100	10 100

6. Other financial assets

Fair value		
Listed shares	1 921 389	1 469 233
Unit trusts	8 129 404	7 835 053
Other investments	4 716 796	6 681 297
	14 767 589	**15 985 583**
	14 767 589	15 985 583
	-	-
	-	-
Non-current assets		
Fair value	11 733 089	10 986 564
Current assets		
Fair value	3 034 500	4 999 019
Non-current assets	11 733 089	10 986 564
Current assets	3 034 500	4 999 019
	14 767 589	**15 985 583**

7. Employee benefit obligations

Post retirement Medical aid plan

The municipality offers employee and continuation member opportunity of belonging to one of the several medical aid scheme, most of which offer a range of options partaining to levells of cover.

Upon retirement, an employee continues membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

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

Opening balance	96 507 006	92 348 915
Benefits paid	(2 370 264)	(2 370 192)
Net expense recognised in the statement of financial performance	21 281 709	6 528 283
	115 418 451	**96 507 006**

Figures in Rand	2014	2013

7. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	4 718 749	4 303 132
Interest cost	8 426 870	7 274 574
Actuarial (gains) losses	8 136 090	(5 049 423)
	21 281 709	**6 528 283**

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

.Consequently, a discount rate of 8.01% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.29%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2014.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.14% was obtained from the differential between market yields on index-linked bonds (1.29%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.01%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.01%-0.50%)/(1+1.29%))-1.

Thus, a general salary inflation rate of 7.14% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.82%.

It has been assumed that the next salary increase will take place on 1 July 2015.

:

Figures in Rand	2014	2013

7. Employee benefit obligations (continued)

Long services Award

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

Opening balance	14 027 055	11 947 509
Benefits paid	(1 943 939)	(1 028 621)
Net expense recognised in the statement of financial performance	3 399 982	3 108 167
	15 483 098	**14 027 055**

Net expense recognised in the statement of financial performance

Current service cost	1 311 314	1 144 751
Interest cost	950 130	806 429
Actuarial (gains) losses	1 138 538	1 156 987
	3 399 982	**3 108 167**

Key assumptions used

In estimating the liability for long service awards a number of assumptions are required. The GRAP25 statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA– this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

The key financial and demographic assumptions are summarised below:

Discount rates	8,01 %	7,27 %
Health care cost inflation rate	7,14 %	6,75 %
Net effective discount rate	0,82 %	0,49 %

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 9.14% per annum has been used. The corresponding index-linked yield at this term is 1.72%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2014.

The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed-interest and index-linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

7. Employee benefit obligations (continued)

A health care cost inflation rate of 8.30% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.80%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.77% which derives from ((1+9.14%)/(1+8.30%))-1.

The expected inflation assumption of 6.80% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.72%) and those of fixed interest bonds (9.14%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+9.14%-0.50%)/(1+1.72%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2015.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary

8. Inventories

Consumable stores	4 864 337	3 950 514
Water	539 615	428 297
	5 403 952	**4 378 811**

9. Receivables from non-exchange transactions

Fines	2 469 180	-
Rates	248 590 059	242 499 761
Allowance for impairment	(219 100 643)	(229 138 226)
	31 958 596	**13 361 535**

Rates				
Current (0 -30 days)	-	-	16 236 945	12 859 623
31 - 60 days	-	-	9 614 871	9 050 013
61 - 90 days	-	-	7 614 559	7 579 688
> 90 days	-	-	215 123 684	213 010 437
Provision for debt impairment	-	-	(219 100 643)	(229 138 226)
	-	**-**	**29 489 416**	**13 361 535**

10. VAT receivable

VAT	2 513 092	1 282 605

11. Consumer

Gross balances		
Electricity	118 131 233	115 064 258
Water	145 008 948	120 205 042
Sewerage	60 904 205	62 210 960
Refuse	65 164 116	63 659 596
Other	310 755 297	293 276 355
	699 963 799	**654 416 211**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

11. Consumer (continued)

Less: Allowance for impairment		
Electricity	(107 012 027)	(109 038 705)
Water	(131 359 853)	(113 910 282)
Sewerage	(55 171 543)	(58 953 168)
Refuse	(59 030 486)	(60 305 204)
Other	(281 505 181)	(277 735 308)
	(634 079 090)	**(619 942 667)**

Net balance		
Electricity	11 119 206	6 025 553
Water	13 649 095	6 294 760
Sewerage	5 732 662	3 257 792
Refuse	6 133 630	3 354 392
Other	29 250 116	15 541 047
	65 884 709	**34 473 544**

Electricity		
Current (0 -30 days)	30 745 064	27 520 334
31 - 60 days	14 015 741	14 841 280
61 - 90 days	13 273 100	9 124 836
> 90 days	60 097 328	63 622 808
Provision for debt impairment	(107 012 027)	(109 083 705)
	11 119 206	**6 025 553**

Water		
Current (0 -30 days)	8 456 547	10 785 536
31 - 60 days	6 866 401	6 524 752
61 - 90 days	5 312 059	5 180 381
> 90 days	124 373 941	97 714 373
Provision for debt impairment	(131 359 853)	(113 910 282)
	13 649 095	**6 294 760**

Sewerage		
Current (0 -30 days)	2 627 709	3 195 601
31 - 60 days	2 042 209	2 049 872
61 - 90 days	1 455 521	827 603
> 90 days	54 778 766	56 137 884
Provision for debt impairment	(55 171 543)	(58 953 168)
	5 732 662	**3 257 792**

Refuse		
Current (0 -30 days)	2 576 192	2 211 080
31 - 60 days	1 904 681	1 789 544
61 - 90 days	1 572 056	1 668 562
> 90 days	59 111 187	57 990 410
Provision for debt impairment	(59 030 486)	(60 305 204)
	6 133 630	**3 354 392**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

11. Consumer (continued)

Other (specify)		
Current (0 -30 days)	4 545 663	839 046
31 - 60 days	5 054 929	4 297 603
61 - 90 days	4 534 340	1 146 052
> 90 days	296 620 365	286 993 653
Provision for debt impairment	(281 505 181)	(277 735 307)
	29 250 116	**15 541 047**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(619 942 667)	(461 137 143)
Contributions to allowance	(14 136 423)	(158 805 524)
	(634 079 090)	**(619 942 667)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	16 764	11 764
Bank balances	4 254 030	3 263 328
Short-term deposits	27 365 233	44 417 117
Bank overdraft	(35 489 536)	(15 028 394)
	(3 853 509)	**32 663 815**

Current assets	31 636 027	47 692 209
Current liabilities	(35 489 536)	(15 028 394)
	(3 853 509)	**32 663 815**

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA Bank Cheque Account	41 857 702	8 248 309	57 563 276	(35 489 536)	(17 504 283)	(14 910 703)
ABSA Bank Cheque Account	-	4	857	-	4	857
ABSA Bank Cheque Account	3 206	3 894	4 698	3 206	3 884	4 698
ABSA Bank Cheque Account	3 970 025	2 983 696	2 007 038	3 970 025	2 983 696	2 007 038
ABSA Bank Cheque Account	214 975	209 059	207 350	214 975	209 059	207 350
Standard Bank Cheque Account	-	-	66 685	-	-	66 685
Standard Bank Call Account	3 147	4 323	4 278	4 375	4 323	4 278
Standard Bank Call Account	818 318	785 531	753 084	818 318	785 531	753 084
ABSA Bank Call Account	65 204	427 183	803 940	65 204	427 183	830 940
ABSA Bank Call Account	587 085	13 877	1 486 642	587 085	13 877	1 486 642
ABSA Bank Call Account	99 359	96 344	3 038 920	99 359	96 344	3 038 920
ABSA Bank Call Account	77 648	1 308 580	11 588 814	77 648	1 308 580	11 588 814
Investec Capital Markets	793 337	755 038	720 017	793 337	755 038	720 017
ABSA Bank Call Account	2 451 638	986 708	-	2 451 638	986 708	-
ABSA Bank Call Account	1 859	1 627 560	-	1 859	1 627 560	-
ABSA Bank Call Account	2 006 507	1 944 324	-	2 006 507	1 944 324	-
ABSA Bank Call Account	3 084 572	2 988 536	-	3 084 572	2 988 536	-
ABSA Bank Call Account	277 177	268 547	-	277 177	268 547	-
ABSA Bank Call Account	1 049 913	1 017 225	-	1 049 913	1 017 225	-
ABSA Bank Call Account	2 484 813	2 407 450	-	2 484 813	2 407 450	-
ABSA Bank Call Account	129 394	5 784 341	-	129 394	5 784 341	-
ABSA Bank Call Account	1 049 913	1 017 225	-	1 049 913	1 017 225	-
ABSA Bank Call Account	3 021	2 644 785	-	3 021	2 644 785	-
FNB	-	66 685	-	66 685	66 685	-
ABSA Bank Call Account	3 085 068	68 408	-	3 085 068	68 408	-
ABSA Bank Call Account	697 242	20 271 134	-	697 242	20 271 134	-
ABSA Bank Call Account	8 598 790	-	-	8 598 790	-	-
Total	**73 409 913**	**55 928 766**	**78 245 599**	**(3 869 412)**	**30 176 164**	**5 798 620**

13. Other financial liabilities

At amortised cost		
Public Investment Corporation (PIC)	687 424 704	608 256 208
Non-current liabilities		
Public Investment Corporation (PIC)	687 424 704	608 256 208

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

14. Finance lease obligation

Minimum lease payments due		
- within one year	59 015	721 684
- in second to fifth year inclusive	-	59 015
	59 015	780 699
less: future finance charges	(963)	(59 805)
Present value of minimum lease payments	**58 052**	**720 894**

Present value of minimum lease payments due		
- within one year	58 052	662 841
- in second to fifth year inclusive	-	58 053
	58 052	**720 894**

Non-current liabilities	-	58 053
Current liabilities	58 053	662 841
	58 053	**720 894**

The average lease term is 5 years and the average effective borrowing rate was 12% (2013: 12%).

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

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of Water Affairs	-	108 929
Expanded Public Work Programme	86 478	1 522 326
Library Grant	363 506	800 000
Municipal Infrastructure Grant	-	35 456 238
Unspent grants 13	494 665	-
Energy efficiency and demand side management grant	3 000 000	-
Disaster Management Grant	1 809 634	2 263 456
	5 754 283	**40 150 949**

Movement during the year

Balance at the beginning of the year	40 150 949	117 325 389
Additions during the year	244 670 399	216 260 000
Income recognition during the year	(279 067 065)	(293 434 440)
	5 754 283	**40 150 949**

The municipality has complied with all the conditions set by the transferring organ of State or the conditions set by the other institutions who made allocations to the municipality. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

See note 22 for reconciliation of grants.

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

Figures in Rand	2014	2013

16. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for the restoration of landfil site	9 655 954	5 474 003	15 129 957

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for the restoration of landfil site	9 094 074	561 880	9 655 954

Key financial assumptions used for the valuation of the closure costs for the Hartebeesfontein landfill site are as follow:

CPI	6.27%	5.77%
Discount rate	8.52%	8.02%
Nett effective discount rate	2.25%	2.25%

It is estimated that the landfill site has a remaining useful life of 7 years.

Environmental rehabilitation provision

The estimate is in respect of the landfill site currently in operation. The landfill site needs to be rehabilitated in 2021.

17. Payables from exchange transactions

Trade payables	123 224 836	69 811 330
Payments received in advanced	77 994 891	72 261 746
Retentions	29 998 038	36 158 190
Accrued leave pay	21 159 389	15 218 248
Accrued bonus	6 077 336	4 627 207
Unallocated deposits	5 753 511	5 761 985
Other payables	16 994 589	2 573 163
	281 202 590	**206 411 869**

18. Consumer deposits

Consumer deposits	12 922 478	12 954 776

19. Revenue

Service charges	499 534 057	475 373 335
Rental of facilities and equipment	582 630	560 770
Interest received (trading)	44 417 978	54 910 149
Licences and permits	4 554 531	4 641 799
Commissions received	8 963 833	8 119 667
Other income	27 252 799	31 978 051
Interest received - investment	3 442 116	16 424 130
Property rates	193 598 617	176 261 206
Government grants & subsidies	550 271 966	491 047 440
Fines	2 469 180	782 714
	1 335 087 707	**1 260 099 261**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	499 534 057	475 373 335
Rental of facilities and equipment	582 630	560 770
Interest received (trading)	44 417 978	54 910 149
Licences and permits	4 554 531	4 641 799
Commissions received	8 963 833	8 119 667
Other income	27 252 799	31 978 051
Interest received - investment	3 442 116	16 424 130
	588 747 944	**592 007 901**

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

Taxation revenue		
Property rates	193 598 617	176 261 206
Transfer revenue		
Government grants and subsidies	550 271 966	491 047 440
Fines	2 469 180	782 714
	746 339 763	**668 091 360**

20. Property rates

Rates received

Residential	125 951 342	114 671 973
Commercial	48 872 399	44 495 710
State	7 210 350	6 564 639
Municipal	-	-
Small holdings and farms	11 564 526	10 528 884
	193 598 617	**176 261 206**

Valuations

Residential	16 559 408 810	13 167 131 703
Commercial	2 986 475 700	2 851 971 100
State	3 877 332 511	3 673 277 911
Municipal	280 418 000	276 361 200
Small holdings and farms	5 869 687 900	5 808 253 400
	29 573 322 921	**25 776 995 314**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0,011954 (2013: R0,01132) is applied to property valuations to determine assessment rates. Rebates of R20 000 plus 30% additional rabetes (2013: R20 000 plus 20%) are granted to residential and 83% plus 60% additional rates (2013: 83% plus 60%) state property owners.

The new general valuation will be implemented on 01 July 2014.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

21. Service charges

Sale of electricity	358 589 938	347 120 618
Sale of water	88 420 880	79 855 092
Sewerage and sanitation charges	22 986 334	21 063 799
Refuse removal	29 536 905	27 333 826
	499 534 057	**475 373 335**

22. Government grants and subsidies

Operating grants		
Equitable share	308 470 000	273 733 000
Finance management grant	1 550 000	1 500 000
Municipal system improvement grant	890 000	800 000
	310 910 000	276 033 000
Capital grants		
Expanded public works programme	2 486 777	3 743 369
Municipal infrastructure grant	220 456 238	198 870 000
Department of water affairs and forestry	8 650 000	7 801 071
Intergrated national electrification	3 000 000	4 600 000
Library grants	836 494	-
Disaster management grant	2 853 822	-
Accelerated community infrastructure project	1 000 000	-
North south local government corporate	78 635	-
	239 361 966	215 014 440
	550 271 966	**491 047 440**

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Department of Water Affairs and Forestry

Balance unspent at beginning of year	108 929	-
Current-year receipts	8 650 000	7 910 000
Conditions met - transferred to revenue	(8 650 001)	(7 801 071)
Equitable share(held back)	(108 928)	-
	-	**108 929**

To subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs (DWA) or by other agencies on behalf of the department and transfer these schemes to local government.

Conditions still to be met - remain liabilities (see note 15).

Finance Management Grant

Current-year receipts	1 550 000	1 500 000
Conditions met - transferred to revenue	(1 550 000)	(1 500 000)
	-	**-**

This grant is intended to promote and support reforms in financial mangement by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The conditions of the grant were met. No funds have been withheld.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

Municipal Systems Improvement Grant

Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(890 000)	(800 000)
	-	**-**

This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies. The conditions of the grant were met. No funds have been withheld.

Expanded Public Works Programme

Balance unspent at beginning of year	1 522 326	3 085 695
Current-year receipts	2 573 000	2 180 000
Conditions met - transferred to revenue	(2 486 522)	(3 743 369)
Equitable share (held back)	(1 522 326)	-
	86 478	**1 522 326**

This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.

Conditions still to be met - remain liabilities (see note 15).

Library Grant

Balance unspent at beginning of year	800 000	400 000
Current-year receipts	400 000	400 000
Conditions met - transferred to revenue	(836 494)	-
	363 506	**800 000**

To transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through arecapitalised programme at provincial level in support of national and local government initiatives.

Conditions still to be met - remain liabilities (see note 15).

Municipal Infrastructure Grant

Balance unspent at beginning of year	35 456 238	111 576 238
Current-year receipts	220 456 238	198 870 000
Conditions met - transferred to revenue	(220 456 238)	(198 870 000)
Equitable share (held back)	(35 456 238)	(76 120 000)
	-	**35 456 238**

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

During the 2010/2011 financial the Municipality submitted an application to the National Treasury for the rollover of unspent Municipal Infrastructure Grant which was denied. The amount was to be paid back in two installment which will be paid by holding back of a portion of the equitable share.During 2012/2013 an amount of R76 120 000 was held back on the equitable share. The remaining amount will be deducted from the 2013/2014 allocation of the equitable share.

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

Integrated National Electrification Programme

Current-year receipts	3 000 000	4 600 000
Conditions met - transferred to revenue	(3 000 000)	(4 600 000)
	-	-

This grant is intended to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply. The conditions of the grant were met. No funds have been withheld.

Accelerated community infrastructure project

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 000 000)	-
	-	-

Waste Project Lethlabile

Current-year receipts	573 300	-
Conditions met - transferred to revenue	(78 635)	-
	494 665	**-**

Conditions still to be met - remain liabilities (see note 15).

Energy Efficiency and Demand side mangement grant

Current-year receipts	3 000 000	-
	3 000 000	**-**

Conditions still to be met - remain liabilities (see note 15).

Disaster Management Grant

Balance unspent at beginning of year	2 263 456	2 263 456
Current-year receipts	2 400 000	-
Conditions met - transferred to revenue	(2 853 822)	-
	1 809 634	**2 263 456**

This grant is intended to provide for immediate release of funds for disaster response.

Conditions still to be met - remain liabilities (see note 15).

Changes in level of government grants

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

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

23. Other income

Advertising hoarding	98 535	209 296
Cemetery fees	931 820	777 843
Electrical sales departmental trading	10 512 747	9 748 186
Insurance commision	513 136	696 725
Notice fees	3 890 721	1 827 834
Other income	1 439 843	6 081 269
Bulk services	460 568	208 959
Building plans	1 263 865	989 401
Reconnection fees	6 238 109	5 660 867
Refuse removal departmental sales	404 067	2 923 305
Service connections	381 650	451 190
Tender document fees	291 832	1 230 647
Town planning	236 858	298 841
Valuation fees	42 768	26 812
Water sales departmental trading	546 280	846 876
	27 252 799	**31 978 051**

24. General expenses

Advertising	1 005 371	922 745
Auditors remuneration	4 431 321	3 727 815
Bank charges	2 912 122	1 896 077
Consulting and professional fees	22 121 183	18 378 827
Consumables	2 035 530	438 638
Debt collection	882 380	-
Refreshments	557 128	550 562
Flowers	263 225	10 922
Grant expenses	903 945	3 745 256
Telemetry	623 800	9 720
Insurance	3 867 051	2 425 135
Community development and training	392 928	88 396
Conferences and seminars	295 584	473 059
Geographical information system	171 053	-
Lease rentals on operating lease	21 294 497	8 332 258
Medical expenses	108 800	79 914
Motor vehicle expenses	343 914	333 772
Water and electricity	20 880 413	3 931 210
Printing and stationery	1 262 471	1 231 771
Protective clothing	605 038	409 731
Subscriptions and membership fees	2 371 127	602 358
Telephone and fax	4 545 675	4 384 854
Transport - Fuel	4 460 300	4 350 771
Training	2 284 320	2 613 406
Travel and accomodation	3 371 796	3 373 125
Refuse	1 086 260	1 276 526
Formalisation of townships	105 645	611 653
Licence fees	1 444 044	3 565 876
Stock written off	94 184	12 367
Training levy	569 400	2 427 950
Other expenses	6 836 400	4 862 947
Printing of statements	2 383 032	1 350 463
Projects	6 771 588	2 944 516
Social programmes	4 798 223	5 824 143
Chemicals	8 187 814	6 309 520
	134 267 562	**91 496 283**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs

Acting allowances	3 215 957	3 516 152
Basic	153 982 223	140 932 009
13th cheques	13 636 086	10 572 488
Housing benefits and allowances	1 078 667	1 193 169
Industrial council	72 035	64 891
Leave pay provision charge	10 747 749	15 002 086
Medical aid - company contributions	21 138 550	18 935 375
Overtime payments	27 639 219	27 415 594
Provident and pension fund	41 375 590	30 914 045
Stand by allowances	1 727 230	1 460 061
Transitional allowances	14 004	15 264
Telephone/Celephone allowance	314 280	278 807
Travel allowances	16 087 274	14 895 949
UIF	1 498 519	1 350 142
	292 527 383	**266 546 032**

Remuneration of municipal manager

Annual remuneration	958 313	766 888
Allowances	194 437	316 891
Contributions	195 801	181 109
	1 348 551	**1 264 888**

Remuneration of chief financial officer

Annual remuneration	837 179	773 134
Allowances	353 649	345 343
Contributions	1 860	1 712
	1 192 688	**1 120 189**

Remuneration of chief operating officer

Annual remuneration	861 120	390 434
Allowances	166 116	118 589
Contributions	161 255	94 551
	1 188 491	**603 574**

Remuneration of advisor office of executive mayor

Annual Remuneration	886 029	-
Car Allowance	164 084	-
Contributions to UIF, Medical and Pension Funds	1 860	-
	1 051 973	**-**

Remuneration of director community services

Annual remuneration	708 391	512 465
Allowances	213 000	348 387
Contributions	176 953	164 404
	1 098 344	**1 025 256**

Remuneration of director corporate support services

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
25. Employee related costs (continued)		
Annual remuneration	763 900	192 470
Allowances	178 140	125 122
Contributions	120 237	53 854
	1 062 277	**371 446**

Remuneration of director public safety

Annual remuneration	744 968	589 334
Allowances	178 080	220 036
Contributions	181 084	168 610
	1 104 132	**977 980**

Remuneration of director infrastructure and technical services

Annual remuneration	715 655	659 377
Allowances	228 308	224 766
Contributions	187 447	176 228
	1 131 410	**1 060 371**

Remuneration of director local economic development

Annual remuneration	864 063	631 948
Allowances	117 128	228 535
Contributions	127 462	130 172
	1 108 653	**990 655**

Remuneration of director human settlement

Annual remuneration	674 925	621 523
Allowances	178 113	238 332
Contributions	180 303	169 423
	1 033 341	**1 029 278**

26. Remuneration of councillors

Executive Mayor	735 515	712 465
Speaker	584 177	556 098
Single Whip	548 971	522 587
Mayoral Committee Members	5 276 713	5 659 137
Councillors	16 741 811	15 537 745
	23 887 187	**22 988 032**

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

27. Debt impairment

Debt impairment	4 098 842	158 954 631
Bad debts written off	91 984 490	239 773 184
	96 083 332	**398 727 815**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

28. Investment revenue

Interest revenue		
Investments	2 568 437	15 969 317
Bank	873 679	454 813
	3 442 116	**16 424 130**
	-	-
	3 442 116	16 424 130

29. Fair value adjustments

Other financial assets		
• Other financial assets (Fair value through P&L)	762 814	596 621

30. Depreciation and impairment

Property, plant and equipment	398 725 673	395 300 743

31. Finance costs

Non-current borrowings	79 168 496	70 404 736
Finance leases	58 844	156 366
Bank overdraft	3	122 055
Defined benefit plan	9 582 408	8 081 005
	88 809 751	**78 764 162**

32. Auditors' remuneration

Fees	3 992 670	3 400 570
Expenses	438 651	327 245
	4 431 321	**3 727 815**

33. Contracted services

Waste removal	32 163 323	18 380 583
Meter readings	1 413 480	1 334 651
Water tankers	16 558 857	12 605 926
Security services	32 251 221	25 075 794
Other contractors	53 400 043	24 768 402
	135 786 924	**82 165 356**

34. Bulk purchases

Electricity	364 086 960	315 318 204
Water	59 543 043	44 281 107
	423 630 003	**359 599 311**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

35. Cash generated from operations

Surplus / (deficit)	(336 310 994)	(466 995 865)
Adjustments for:		
Depreciation and impairment	398 725 673	395 300 743
Contribution to provisions - Land fillsite	5 474 003	561 880
Fair value adjustments	(762 814)	(596 621)
Finance costs - Finance leases	58 844	156 366
Rates - non cash	-	(3 355 647)
Assets taken on - non cash	-	(1 287 748)
Inventory written off	94 184	12 367
Debt impairment	96 083 332	398 727 815
Movement in post employee benefit obligation	20 367 488	6 237 637
Finance cost - non cash PIC loan	79 168 496	70 404 736
Assets written off	263 225	-
Interest on debtors	(44 417 978)	(54 910 149)
Changes in working capital:		
Inventories	(1 119 325)	525 657
Consumer debtors	(83 076 519)	(103 021 859)
Other receivables	(18 597 061)	(11 672 444)
Payables from exchange transactions	74 790 721	31 286 229
VAT receivable	(1 230 488)	13 549 095
Unspent conditional grants and receipts	(34 396 666)	(77 174 440)
Consumer deposits	(32 298)	67 511
	155 081 823	**197 815 263**

36. Commitments

Already contracted for but not provided for		
• Property, plant and equipment	50 211 207	113 899 266
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	8 727 079	13 850 000

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Figures in Rand	2014	2013

37. Contingencies

The municipality received a summons in which the plaintiff alleged in their particulars of claim that her minor child suffered serious injuries as result of the municipality's negligence to take care of the electrical wires on the road of Phase 3 at Oukasie. The plaintiff claim an amount of R 100 000 against the municipality. The matter has been postponed to allow the plaintiff to submit the medical report.

The Plaintiff is claiming an amount of R 50 000,00 for injuries she suffered and medical expenses she incurred by falling down and injured the whole of her left side due to a fault in the road at 33 Murray Street, Brits. The matter has been postponed to allow the plaintiff to submit medical report.

On the 25th May 2012 a summons was served to the municipality wherein Izma Beleggings (Pty) Ltd is seeking an order directing the municipality to pay amongst others the amount of R 5 000 000,00 to the transferring attorneys in terms of the agreement of sale of property entered into and signed by the parties. The municipality instructed Gildenhuys Lessing & Malatji attorneys to defend the matter.

Multi Fleet Services (Pty) Ltd summoned the municipality on the 28th May 2012, wherein the plaintiff seeks amongst others the return of the tractors or alternatively to pay the sum of R 212 000, 00 which is alleged to be the value of the two tractors. The municipality instructed Ngwenya attorneys to defend the municipality in this matter.

The municipality received summons from kosmos ridge in respect of which they claim that the municipality didn't comply with the undertaking on the 10th August 2011 after court order issued on the 25th February 2005.They said the municipality failed to install services. And they claim past and future expenses incurred as a result of non-compliances of court order by the municipality. The plaintiff sue the municipality an amount of R848 354.07 and the future amount to be determine.

The municipality received a summons for payment of R4 009 584.55 which GR Makopo CC alleged to be for compensation for breach of contract by the municipality.

The municipality received a summons for payment of R5 098 901,94 which Hloyisane Electrical Technologies alleged to be for services rendered to the muicipality.

On 12th April 2007 the municipality and Traffic Management Technologies entered into a written agreement for the provision of a comprehensive back office for traffic admistration, TMT summons for payment of R3 260 400.00 which is alleged to be for breach of contract.

On the 20th July 2005, the municipality entered into a cotract with MK Construction for the construction of civil engineering services in Oukasie Ext 5 and Environs. It is alleged that the municipality cancelled the contract on the 30th May 2008 due to lack of performance without terms of warning. As a result of the municipality's failure to comply with its undertaking, MK Construction issued summons against the Municipality for a payment amount of R1 714 327.77 which is alleged to be damages suffered by the plaintiff.

The municipality received a summons for payment of R1 102 901,90 which Sechaba Traffic Solutions CC alleged to be for commission on traffic fines collected.

The municipality received a summons for payment of R1 011 652,20 which is alleged to be for professional services rendered to the muicipality.

DDP Valuers (Pty) Ltd issued summons for payments of R1 079 242,92 which is alleged to be for supplementary and ad hoc valuations performed

Summons were served to the Municipality wherein Mr. Norman Van Rheede is claiming an amount of R16 773,82 which is for damage to his vehicle allegedly caused by collision with a pot hole at Old Rustenburg Road, near Brits Pale, Hartbeesspoort.

Summons were served to the Municipality wherein Mr. De Bruyn is claiming an amount of R250 000,00 which is alleged to be loss suffered as a result of the Municipality's breach of its statutory and/or legal duty to erect a stop sign and/or to maintain the road signs and in particular to ensure the visibility of warning signs amongst others.

Summons was issued against the Municipality for the payment of R350 746.63 in respect of the operation and maintenance of the Eagles Landing Sewage Treatment Plant. It is alleged that Eagles Landing Homeowners Association operated and maintained the plant on behalf of the Municipality.

37. Contingencies (continued)

On the 06th January 2014, the Municipality was served with the summons wherein the Plaintiff is claiming a total amount of R7 878 688.53 plus interest calculated at the rate of 15.5% per annum which is alleged to be for service rendered and cancellation of contract respectively.

Nchebe Consulting CC issued summons claiming an amount of R13 071 380.89 which is for professional service which is alleged to have been rendered to the Municipality.

The municipality received summons for payments amounting to R4 169 240,42 which is alleged to be for damages caused by accidents resulting from the municipality's failure to fill the potholes on the R511 road.

Eskom sues the municipality R85 438,36 together with interests as an amount for the alleged damaged of the plaintiff's telecommunication lines around the municipality.

Telkom issued a letter of demand claiming R24 316.94 as repair costs for underground cable at E74 Klipgat allegedly damaged by Madibeng Municipality employees.

Summons were issued against the municipality for damages in the sum of R250 000.00

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation

38. Related parties

Relationships

Remuneration of key management personnel	Refer to note 25 & 26 on compensation to Municipal Manager, Chief Financial Officer, Senior Managers, Mayoral Committee and Other Councillors

Figures in Rand	2014	2013

39. Prior period errors

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

Statement of Finanncial Performance		
Revenue	-	-
Property rates (billing of customers on supplimantary rolls not implemented on the system)	-	1 279 206
Licence and permits (correction of licence income incorrectly accounted in the general ledger)	-	926 445
Commission received (correction of commission income incorrectly accounted in the general ledger)	-	6 839 918
Service charges (recognition of revenue from sale of pre-paid electricity)	-	7 451 924
Service charges (recognition of revenue on refuse removals not billed)	-	19 198
Rental of facilities and equipment (Reallocation of revenue incorretly recognised to the deposit account)	-	(346)
Rental of facilities and equipment (recognition of rental not billed)	-	80 672
Other income (correction of journal incorrectly passed to other income votes)	-	3 527
Other income (reclassification of income votes incorrectly mapped to expenses)	-	5 696 011
Fair value adjustments (correction of fair value adjustment on restructuring of share value)	-	(58 362)
Expenses	-	-
Personnel (reclassification of general expenses votes incorrectly mapped to personnel)	-	1 194 961
Debt impairement (write off of VAT accrued on indigent debtors written off)	-	4 982 019
Finance cost (correction of lease finance charges not allocated in the ledger)	-	(156 366)
Finance cost (Interest paid on penalities)	-	(122 055)
Finance cost (correct allocation of payment of loan)	-	43 334
Depreciation and amortization (recognition of depreciation on municipal main building ommited during unbundling of assets)	-	(1 924 160)
Depreciation and amortization(correction of depreciation incorrectly calculated during unbundling of assets)	-	79 249 602
Bulk purchases(correct allocation of VAT)	-	(8 679)
Bulk purchases (reversal of accrual incorrectly raised)	-	393 054
Bulk purchases (correction of VAT incorrectly captured)	-	(42 886)
Bulk purchases (Recognition accrual not recognized in the prior years)	-	(802 548)
Contracted services (correction of VAT incorrectly accounted)	-	10 388
Contracted services (Recognition of amount owed by CIGICELL to the municipality)	-	(512 349)
Contracted services (Recognition accrual not recognized in the prior years)	-	344 429
Contracted services (Reversal of accrual incorrectly raised)	-	2 765 453
Contractors services: (recognition of revenue from the sale of pre-paid electricity)	-	(5 799 680)
General expenses (allocation of expenses from the suspense account to the relevent expense)	-	(113 490)
General expenses (allocation of expenses from the suspense account to the relevent expense)	-	4 112
General expenses (correction of finance cost not allocated in the 12/13 financial year)	-	156 366
General expenses (recognition of accrual not recognised in the prior years)	-	(5 300)
General expenses (recognition of accrual not recognised)	-	(35 060)
General expenses (recognition of expense paid but not captured in the general ledger)	-	(49 931)
General expenses (reversal of accrual incorrectly recognised)	-	1 460 812
General expenses (write off of redundant and shortages of inventory at year end)	-	15 261
General expenses (reclassification of general expenses votes incorrectly mapped to personnel)	-	(1 194 961)
General expenses (reclassification of votes incorrectly mapped to general expenses)	-	(1 977 785)
Repairs and maintenance (recognition of retention payout incorrectly captured)	-	95 552
Repairs and maintenance (reversal of accrual incorrectly recognised)	-	13 981
Repairs and maintenance (reversal of creditors incorrectly raised)	-	123 043
Repairs and maintenance (correction of expenses paid through the suspense account)	-	(172 531)
Repairs and maintenance (reclassification of income votes incorrectly mapped to expenses)	-	(1 594 881)
Grant and subsidies paid (reclassification of grant expenses votes incorrectly mapped to general expenses)	-	(2 119 822)

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Prior period errors (continued)

Statement of Financial Position

Inventory	-	15 260
Vat receivable	-	1 282 605
Consumer debtors	-	(6 685 260)
Receivable from exchange transactions	-	13 361 535
Investment property	-	(1 842 045 653)
Property, plant and equipment	-	211 621 333
Other financial assets	-	(199 737)
Payables from exchange transaction	-	(5 925 559)
Bank overdraft	-	5 217 310
VAT payable	-	(2 535 524)
Other financial liabilities	-	(376 490)
Accumulated surplus	-	(1 619 029 654)

40. Risk management

Liquidity risk

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

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Credit risk

cash with major banks. Credit Risk related to consumer debtors is managed in accordance with the Councils credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

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

Financial instrument	**2014**	**2013**
Other financial assets	3 034 500	4 999 019
Consumer Debtors	101 948 216	34 258 454
Receivable from non-exchange transaction	15 352 991	13 361 535
Cash and cash equivalents	31 636 027	47 692 209

41. Going concern

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

42. Events after the reporting date

Management is not aware of any events that occurred after year end that may have an impact on the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

43. Unauthorised expenditure

Unauthorised expenditure - overspending	444 856 365	-

Unauthorised expenditure where not condoned by council during the financial year.

44. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - opening balance	168 978	-
Fruitless and wasteful expenditure - Interest on overdue accounts	1 480 543	168 978
	1 649 521	**168 978**

45. Irregular expenditure

Opening balance	151 884 694	-
Add: Irregular Expenditure - current year	212 541 447	151 884 694
	364 426 141	**151 884 694**

Analysis of expenditure awaiting condonation per age classification

Current year	212 541 447	151 884 694
Prior years	151 884 694	-
	364 426 141	**151 884 694**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
The irregular expenditure relates to goods and services that were purchased outside the normal procurement processes.	No steps were taken	212 541 447

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2 140 335	2 543 029
Amount paid - current year	-	(2 543 029)
	2 140 335	**-**

Audit fees

Opening balance	26 165	4 102 987
Current year fee	4 551 405	3 727 815
Amount paid - current year	(4 151 630)	(7 804 637)
	425 940	**26 165**

PAYE and UIF

Opening balance	-	2 778 024
Current year fee	40 312 397	34 513 144
Amount paid - current year	(36 899 524)	(37 291 168)
	3 412 873	**-**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

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

Pension and Medical Aid Deductions

Opening balance	-	1 753 558
Current year fee	80 509 335	49 849 420
Amount paid - current year	(73 656 879)	(51 602 978)
	6 852 456	**-**

VAT

VAT receivable	2 513 092	1 282 605

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Basson LJ	1 608	-	1 608
Davids D	715	-	715
Klass S	665	6 046	6 711
Komane MT	1 554	10 651	12 205
Lekoane S	1 475	4 808	6 283
Letwaba E	4 685	13 688	18 373
Maakane P	9	3 565	3 574
Mahlakwana RE	459	18 880	19 339
Makhongela PB	48	51 720	51 768
Maswanganye TE	1 762	35 034	36 796
Maunatlala SM	8	2 446	2 454
Mncina ME	1 262	22 642	23 904
Modise ETM	-	854	854
Mogotsi RK	1 966	16 685	18 651
Mogotsi SM	1 880	2 869	4 749
Molefe WS	8 230	32 808	41 038
Peplar K	4 117	5 369	9 486
Rossouw DF	-	-	-
Sefudi AM	-	-	-
Strauss WI	1 385	66 435	67 820
Tlhopane M	2 622	8 152	10 774
Tsotetsi TPJ	9	3 562	3 571
Peplar K	-	-	-
Moloi MS	1 879	5 423	7 302
Motepe FJ	1 787	33 300	35 088
Ncongwane SE	315	657	1 072
Ndonyane OS	2 119	26 317	28 436
Nkosi I	2 454	16 950	19 404
Nqetho MC	1 522	-	1 522
Nthangeni SDN	9	3 565	3 574
Ntshabele KS	9	3 517	3 526
	44 553	**344 937**	**440 597**

47. Assets subject to restrictions

No assets that have been recognised which are subject to restrictions.

48. Distribution losses

Electricity

Year	Units Purchased	Units Sold	Loss in units	Loss in percentage
2013/06/30	531 796 582,00	369 091 935,00	162 704 647,00	30,60 %
2014/06/30	493 339 663,00	408 717 301,00	84 622 362,00	17,15 %

Electricity distribution loss calculated value amounts to R86 524 857,31 (2013: R195 790 431,10)

Water

Year	Units Purchased	Units Sold	Loss in units	Loss in percentage
2013/06/30	27 950 716,00	9 281 086,00	18 669 630,00	66,79 %
2014/06/30	32 396 548,00	10 693 732,00	21 702 816,00	66,99 %

Water distribution loss calculated value amounts to R231 517 510,41 (2013: R233 620 626,93)

Appendix A

Schedule of external loans as at 30 June 2013

	Loan Number	Redeemable	Balance at 30 June 2013 Rand	Received during the period Rand	Redeemed written off during the period Rand	Interest Rand	Balance at 30 June 2014 Rand
Development Bank of South Africa							
Project 10927/101	10927/101	2013/09/30	-	-	-	-	-
Project 13184/101	13184/101	2012/12/31	-	-	-	-	-
Project 10926/103	10926/103	2012/09/30	-	-	-	-	-
Project 103290/4	103290/4	2011/03/31	-	-	-	-	-
			-	**-**	**-**	**-**	**-**
Public Investment Corporation							
BR25	BR25	30/06/2030	251 554 619	-	-	32 321 536	283 876 155
BR26	BR26	30/06/2030	244 922 144	-	-	31 479 215	276 401 359
BR20	BR20	30/06/2020	112 155 875	-	-	15 367 745	127 523 620
			608 632 638	**-**	**-**	**79 168 496**	**687 801 134**
Lease liability							
ABSA Bank	074475740	2012/08/31	-	-	-	-	-
ABSA Bank	074475758	2012/08/31	-	-	-	-	-
ABSA Bank	073859722	2012/06/04	-	-	-	-	-
Fleet Africa	Gladiator	2014/07/31	-	-	-	-	-
Fleet Africa	Rescue Pumper	2012/07/31	-	-	-	-	-
			-	**-**	**-**	**-**	**-**
Total external loans							
Development Bank of South Africa			-	-	-	-	-
Public Investment Corporation			608 632 638	-	-	79 168 496	687 801 134
Lease liability			-	-	-	-	-
			608 632 638	**-**	**-**	**79 168 496**	**687 801 134**

Appendix B

Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals/write off Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals/write off Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	17 322 810	-	-	-	-	-	**17 322 810**	-	-	-	-	-	**-**	17 322 810
Buildings	61 588 409	-	-	-	-	-	**61 588 409**	(7 858 719)	-	-	(2 052 336)	-	**(9 911 055)**	51 677 354
	78 911 219	**-**	**-**	**-**	**-**	**-**	**78 911 219**	**(7 858 719)**	**-**	**-**	**(2 052 336)**	**-**	**(9 911 055)**	**69 000 164**
Infrastructure														
Roads, Pavements, Storm water & Bridges	1 977 063 434	-	(105 210)	44 360 012	-	-	**2 021 318 236**	(379 187 925)	60 591	-	(54 549 429)	(37 826)	**(433 714 589)**	1 587 603 647
Electrical Networks	2 297 217 158	-	-	-	-	-	**2 297 217 158**	(956 049 130)	-	-	(307 326 710)	-	**(1 263 375 840)**	1 033 841 318
Sanitation	116 107 498	-	-	-	-	-	**116 107 498**	(23 635 125)	-	-	(6 518 950)	-	**(30 154 075)**	85 953 423
Water Supply Networks	563 960 212	-	-	12 441 936	-	-	**576 402 148**	(78 557 494)	-	-	(14 058 021)	-	**(92 615 515)**	483 786 633
Work in progress	357 582 120	188 395 422	-	(56 801 948)	-	-	**489 175 594**	-	-	-	-	-	**-**	489 175 594
	5 311 930 422	**188 395 422**	**(105 210)**	**-**	**-**	**-**	**5 500 220 634**	**(1 437 429 674)**	**60 591**	**-**	**(382 453 110)**	**(37 826)**	**(1 819 860 019)**	**3 680 360 615**
Community Assets														
Community Facilities	223 282 471	-	-	-	-	-	**223 282 471**	(43 817 542)	-	-	(8 593 670)	(395 729)	**(52 806 941)**	170 475 530
Sports and Recreation Facilities	32 796 092	-	-	-	-	-	**32 796 092**	(7 550 165)	-	-	(1 219 998)	-	**(8 770 163)**	24 025 929
	256 078 563	**-**	**-**	**-**	**-**	**-**	**256 078 563**	**(51 367 707)**	**-**	**-**	**(9 813 668)**	**(395 729)**	**(61 577 104)**	**194 501 459**

Appendix B

Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals/write off Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals/write off Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Other	10 100	-	-	-	-	-	**10 100**	-	-	-	-	-	-	10 100
	10 100	**-**	**-**	**-**	**-**	**-**	**10 100**	**-**	**-**	**-**	**-**	**-**	**-**	**10 100**
Specialised vehicles														
Other assets														
General vehicles	7 943 590	-	(404 065)	-	-	-	**7 539 525**	(4 710 852)	360 624	-	(822 083)	-	**(5 172 311)**	2 367 214
Plant & equipment	6 951 776	1 572 267	(188 968)	-	-	-	**8 335 075**	(3 048 482)	139 779	-	(906 395)	-	**(3 815 098)**	4 519 977
Computer Equipment	4 526 033	642 738	(186 517)	-	-	-	**4 982 254**	(1 665 373)	116 960	-	(584 239)	-	**(2 132 652)**	2 849 602
Furniture & Fittings	11 433 158	1 723 961	(140 272)	-	-	-	**13 016 847**	(6 700 581)	116 831	-	(1 188 622)	-	**(7 772 372)**	5 244 475
Office Equipment	1 615 328	523 882	(134 903)	-	-	-	**2 004 307**	(811 007)	101 925	-	(220 549)	-	**(929 631)**	1 074 676
Bins and Containers	3 264 497	-	-	-	-	-	**3 264 497**	(2 301 889)	-	-	(251 115)	-	**(2 553 004)**	711 493
	35 734 382	**4 462 848**	**(1 054 725)**	**-**	**-**	**-**	**39 142 505**	**(19 238 184)**	**836 119**	**-**	**(3 973 003)**	**-**	**(22 375 068)**	**16 767 437**
Total property plant and equipment														
Land and buildings	78 911 219	-	-	-	-	-	**78 911 219**	(7 858 719)	-	-	(2 052 336)	-	**(9 911 055)**	69 000 164
Infrastructure	5 311 930 422	188 395 422	(105 210)	-	-	-	**5 500 220 634**	(1 437 429 674)	60 591	-	(382 453 110)	(37 826)	**(1 819 860 019)**	3 680 360 615
Community Assets	256 078 563	-	-	-	-	-	**256 078 563**	(51 367 707)	-	-	(9 813 668)	(395 729)	**(61 577 104)**	194 501 459
Heritage assets	10 100	-	-	-	-	-	**10 100**	-	-	-	-	-	**-**	10 100
Other assets	35 734 382	4 462 848	(1 054 725)	-	-	-	**39 142 505**	(19 238 184)	836 119	-	(3 973 003)	-	**(22 375 068)**	16 767 437
	5 682 664 686	**192 858 270**	**(1 159 935)**	**-**	**-**	**-**	**5 874 363 021**	**(1 515 894 284)**	**896 710**	**-**	**(398 292 117)**	**(433 555)**	**(1 913 723 246)**	**3 960 639 775**
Agricultural/Biological assets														
Intangible assets														
Investment properties														
Investment property	466 341 266	-	-	-	-	-	**466 341 266**	-	-	-	-	-	-	466 341 266
	466 341 266	**-**	**-**	**-**	**-**	**-**	**466 341 266**	**-**	**-**	**-**	**-**	**-**	**-**	**466 341 266**
Total														
Land and buildings	78 911 219	-	-	-	-	-	**78 911 219**	(7 858 719)	-	-	(2 052 336)	-	**(9 911 055)**	69 000 164
Infrastructure	5 311 930 422	188 395 422	(105 210)	-	-	-	**5 500 220 634**	(1 437 429 674)	60 591	-	(382 453 110)	(37 826)	**(1 819 860 019)**	3 680 360 615
Community Assets	256 078 563	-	-	-	-	-	**256 078 563**	(51 367 707)	-	-	(9 813 668)	(395 729)	**(61 577 104)**	194 501 459
Heritage assets	10 100	-	-	-	-	-	**10 100**	-	-	-	-	-	**-**	10 100
Other assets	35 734 382	4 462 848	(1 054 725)	-	-	-	**39 142 505**	(19 238 184)	836 119	-	(3 973 003)	-	**(22 375 068)**	16 767 437
Investment properties	466 341 266	-	-	-	-	-	**466 341 266**	-	-	-	-	-	**-**	466 341 266
	6 149 005 952	**192 858 270**	**(1 159 935)**	**-**	**-**	**-**	**6 340 704 287**	**(1 515 894 284)**	**896 710**	**-**	**(398 292 117)**	**(433 555)**	**(1 913 723 246)**	**4 426 981 041**

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2014

	Forecast # 1 2014 Act. Bal. Rand	Forecast # 1 2014 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Government grants and subsidies	550 271 966	560 212 300	(9 940 334)	(1,8)	Unspent conditional grant re-payment to National Treasury which was adjusted during the adjustment budget.
Property rates	193 598 617	251 231 000	(57 632 383)	(22,9)	Poor revenue collection from townships resulted in under collection of revenue.
Service charges	499 534 057	512 444 763	(12 910 706)	(2,5)	Improvements on monitoring activities of prepaid electricity led to more revenue collections applied/charged, poor collection of prepaid electricity.
Rental of facilities and equipment	582 630	579 216	3 414	0,6	The municipality reviewed lease agreements for facilities. Credit control and debt collection procedures were implemented to ensure that all revenue due to the municipality is collected.
Interest received	44 417 978	55 000 000	(10 582 022)	(19,2)	Debt collection activities were not adequately implemented in the townships due to community protests.
Licences and permits	4 554 531	4 822 765	(268 234)	(5,6)	
Commissions received	8 963 833	6 178 100	2 785 733	45,1	
Fines	2 469 180	590 775	1 878 405	318,0	Poor controls on traffic fines issued.
Other income	27 252 799	54 628 304	(27 375 505)	(50,1)	Poor implementation of municipal by-laws with regard to instituting fines for tempering. Poor business process engineering to ensure that all chargeable services are paid for. Reconnections and disconnection services are not paid upfront they are billed on monthly basis.
Interest received - investment	3 442 116	10 304 000	(6 861 884)	(66,6)	The municipality did not have unspent grants from 2012/13 to be held on call investments accounts.
	335 087 707	455 991 223	(120 903 516)	(8,3)	
Expenses					
Personnel	(292 527 383)	(288 399 952)	(4 127 431)	1,4	Overtime expenditure exceeded the appropriated amount for the year.
Remuneration of councillors	(23 497 955)	(24 497 955)	1 000 000	(4,1)	
Depreciation	(398 725 673)	(40 400 000)	(358 325 673)	886,9	Condition assessment of infrastructure assets indicates serious detoriation of roads, water and sanitation infrastructure.
Finance costs	(88 809 751)	(10 000 000)	(78 809 751)	788,1	The municipality is not paying PIC loan. Investigations are ongoing on the matters surrounding the acquisition of PIC loan before the democratic government dispensation.
Debt impairment	(96 083 332)	(185 000 000)	88 916 668	(48,1)	Over estimation of provision for bad debts.
Repairs and maintenance	(58 508 060)	(42 757 000)	(15 751 060)	36,8	The municipality experienced service delivery protests during the year that led to damage to infrastructure. The repairs and maintenance costs incurred led to the over expenditure.
Bulk purchases	(423 630 003)	(378 020 000)	(45 610 003)	12,1	Increase in Eskom, Rand Water and City of Tshwane tariffs led to high expenditure. The other factor is high consumption of electricity during winter. The municipality also experienced distribution losses due to water leaks. There were also new township establishments and various new developments going on in the jurisdiction that led to high consumption.
Contracted Services	(135 786 924)	(115 420 000)	(20 366 924)	17,6	There was need to increase security services to various infrastructures such as power substations and plants. The unruly communities destroyed some of the infrastructure. The other factor was increase in waste removal and water tankering activities
Grants and subsidies paid	(5 392 417)	(5 000 000)	(392 417)	7,8	
General Expenses	(134 267 562)	(123 267 020)	(11 000 542)	8,9	.
	657 229 060)	212 761 927)	(444 467 133)	36,6	
Other revenue and costs					

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2014

	Forecast # 1 2014 Act. Bal.	Forecast # 1 2014 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
Gain or loss on exchange differences	(14 543 223)	-	(14 543 223)	-	
Fair value adjustments	762 814	-	762 814	-	
	(13 780 409)	-	(13 780 409)	-	
Net surplus/ (deficit) for the year	(335 921 762)	243 229 296	(579 151 058)	(238,1)	

Appendix E(2)

Budget Analysis of Capital Expenditure as at 30 June 2013

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Property, plant and equipment	2 858 270	4 636 400	1 778 130	**24**	Late apointment of contractors.
	2 858 270	**4 636 400**	**1 778 130**	**24**	
Municipal Owned Entities					
Other charges					