Umhlabuyalingana Local Municipality
Annual Financial statements
for the year ended 30 June 2015

General Information

Legal form of entity	Municipality KZN 271
Nature of business and principal activities	The main purposes of the municipality is to enagage in local governance activities,which include planning and promotions of integrated development planning, economic and enviromental development and supplying of the following services to the community. Rates and general services all types of services rendered by the municipality includes services for refuse removal.
Mayoral committee	
Mayor	Cllr. T.S. Mkhombo
Speaker	Cllr. N.S. Mthembu
Deputy Mayor	Cllr. M.N. Nxumalo
Grading of local authority	Medium capacity municipality
Accounting Officer	Mr SE Bukhosini
Chief Finance Officer (CFO)	Mr NPE Myeni
Exco Members	Cllr N.S. Mthethwa Cllr. B.T. Tembe Cllr T.A.Zikhali Cllr M. J. Ntsele
Registered office	Municipal Building Kwangwanase 3973
Postal address	Private Bag X 901 Kwangwanase 3973
Bankers	First National Bank of South Africa
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Maseko Mbatha Attorneys
List of Councillors	Cllr. KO Tembe Cllr. BN Ntsele Cllr. QI Nhlozi Cllr. JS Mkhabela Cllr. MR Mthembu Cllr. DM Mhlongo Cllr. BH Ngubane Cllr. TM Gumede Cllr. CB Mhlangu Cllr. JB Gwala Cllr. NL Mlambo Cllr. NC Mdletshe Cllr. EG Mhlongo Cllr. SN Tembe

General Information

Cllr. SP Mthethwa
Cllr. FG Mlambo
Cllr NR Mthethwa
Cllr. SK Phyffer
Cllr. SX Mabika
Cllr. RN Mthembu
Cllr. TF Zikhali
Cllr. TA Fakude
Cllr. BE Biyela
Cllr. GA Mathenjwa
Cllr. GN Gumede
Cllr. LT Nsele

Index

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IMFO	Institute of Municipal Finance Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officers' Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are 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 2016 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing 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 5.

The annual financial statements set out on pages 5 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

Accounting Officer
Mr S.E. Bukhosini

31 August 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
ASSETS			
Current Assets			
Receivables from non-exchange transactions	7	6 091 429	11 487 560
VAT receivable	8	2 174 640	1 684 266
Receivables from exchange transactions	9	390 109	194 090
Cash and cash equivalents	10	77 638 254	71 049 659
		86 294 432	**84 415 575**
Non-Current Assets			
Property, plant and equipment	4	221 089 195	183 523 572
Intangible assets	5	451 448	462 924
		221 540 643	**183 986 496**
TOTAL ASSETS		**307 835 075**	**268 402 071**
LIABILITIES			
Current Liabilities			
Finance lease obligation	11	25 704	99 755
Payables from exchange transactions	14	7 535 024	8 753 804
Unspent conditional grants and receipts	12	2 357 052	3 034 112
		9 917 780	**11 887 671**
Non-Current Liabilities			
Finance lease obligation	11	-	25 704
Provisions	13	10 757 370	9 521 913
		10 757 370	**9 547 617**
TOTAL LIABILITIES		**20 675 150**	**21 435 288**
Net Assets		**287 159 925**	**246 966 783**
Accumulated surplus		287 159 925	246 966 783

* See Note 2 & 35

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges		79 766	-
Interest received - Debtors	20	1 209 815	-
Licences and permits		3 818 790	3 878 140
Rental income	18	79 652	37 127
Other income	19	234 205	741 662
Interest received - investment		4 973 842	4 197 219
Total revenue from exchange transactions		**10 396 070**	**8 854 148**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	16	29 543 512	14 523 210
Transfer revenue			
Government grants & subsidies		130 714 060	104 048 129
Public contributions and donations		32 303	-
Fines		968 200	475 700
Total revenue from non-exchange transactions		**161 258 075**	**119 047 039**
Total revenue	15	**171 654 145**	**127 901 187**
EXPENDITURE			
Personnel	22	(32 162 557)	(24 604 786)
Remuneration of councillors	23	(8 075 830)	(6 182 547)
Depreciation and amortisation	26	(11 647 072)	(10 937 617)
Impairment loss	27	(471 063)	(954 863)
Finance costs	28	(844 244)	(791 165)
Debt Impairment	24	(24 223 102)	(2 625 790)
Repairs and maintenance		(8 008 171)	(4 538 300)
Contracted services	30	(41 565)	(56 474)
Grant funded expenditure	31	(2 631 131)	(2 620 275)
General Expenses	21	(42 363 205)	(33 640 701)
Total expenditure		**(130 467 940)**	**(86 952 518)**
Operating surplus		**41 186 205**	**40 948 669**
Loss on disposal of assets		(996 604)	(178 657)
Cash losses written off		(37 600)	-
		(1 034 204)	**(178 657)**
Surplus for the year		**40 152 001**	**40 770 012**

* See Note 2 & 35

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**204 369 902**	**204 369 902**
Changes in net assets		
Prior period error	1 822 633	1 822 633
Net income (losses) recognised directly in net assets	1 822 633	1 822 633
Surplus for the year	40 770 012	40 770 012
Total recognised income and expenses for the year	42 592 645	42 592 645
Total changes	42 592 645	42 592 645
Restated* Balance at 01 July 2014	**246 962 547**	**246 962 547**
Changes in net assets		
Accumulated Surplus Current Yr	45 377	45 377
Net income (losses) recognised directly in net assets	45 377	45 377
Surplus for the year	40 152 001	40 152 001
Total recognised income and expenses for the year	40 197 378	40 197 378
Total changes	40 197 378	40 197 378
Balance at 30 June 2015	**287 159 925**	**287 159 925**

* See Note 2 & 35

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers and other		12 601 644	12 745 938
Grants		130 714 060	104 100 704
Interest income		4 973 842	4 197 219
Other receipts		4 313 955	5 132 628
		152 603 501	126 176 489
Payments			
Employee costs		(38 358 836)	(31 263 063)
Suppliers		(55 735 669)	(40 332 544)
Interest Paid		(844 244)	(379 479)
		(94 938 749)	(71 975 086)
Net cash flows from operating activities	32	**57 664 752**	**54 201 403**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(50 828 058)	(34 118 142)
Purchase of other intangible assets	5	(148 344)	(87 836)
(Increase) in long term debtor		-	(3 267 594)
Net cash flows from investing activities		**(50 976 402)**	**(37 473 572)**
Cash flows from financing activities			
Decrease in short term loans		-	(5 433 991)
Finance lease payments		(99 755)	-
Net cash flows from financing activities		**(99 755)**	**(5 433 991)**
Net increase in cash and cash equivalents		**6 588 595**	**11 293 840**
Cash and cash equivalents at the beginning of the year		71 049 659	59 755 819
Cash and cash equivalents at the end of the year	10	**77 638 254**	**71 049 659**

* See Note 2 & 35

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	80 022	-	**80 022**	79 766	**(256)**	
Interest received	-	1 210 000	**1 210 000**	1 209 815	**(185)**	45.2
Licences and permits	3 469 200	349 590	**3 818 790**	3 818 790	**-**	45.3
Rental income	49 217	80 000	**129 217**	79 652	**(49 565)**	45.3
Other income	142 290	4 598 306	**4 740 596**	234 205	**(4 506 391)**	45.4
Interest received - investment	4 105 781	727 481	**4 833 262**	4 973 842	**140 580**	45.5
Total revenue from exchange transactions	**7 846 510**	**6 965 377**	**14 811 887**	**10 396 070**	**(4 415 817)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15 297 216	14 841 341	**30 138 557**	29 543 512	**(595 045)**	45.6
Government grants	127 736 000	3 794 499	**131 530 499**	130 714 060	**(816 439)**	45.7
Transfer revenue						
Public contributions and donations	-	32 303	**32 303**	32 303	**-**	45.8
Fines	450 000	518 200	**968 200**	968 200	**-**	45.9
Total revenue from non-exchange transactions	**143 483 216**	**19 186 343**	**162 669 559**	**161 258 075**	**(1 411 484)**	
Total revenue	**151 329 726**	**26 151 720**	**177 481 446**	**171 654 145**	**(5 827 301)**	
Expenditure						
Personnel	(32 830 000)	667 443	**(32 162 557)**	(32 162 557)	**-**	45.10
Remuneration of councillors	(8 364 303)	-	**(8 364 303)**	(8 075 830)	**288 473**	45.11
Depreciation and amortisation	(7 737 715)	(3 909 357)	**(11 647 072)**	(11 647 072)	**-**	45.12
Impairment loss	-	(480 000)	**(480 000)**	(471 063)	**8 937**	45.13
Finance costs	(100 000)	(741 990)	**(841 990)**	(844 244)	**(2 254)**	45.14
Debt impairment	(2 700 030)	(7 300 000)	**(10 000 030)**	(24 223 102)	**(14 223 072)**	45.1 & 45.14
Repairs and maintenance	(8 652 107)	415 000	**(8 237 107)**	(8 008 171)	**228 936**	45.15
General Expenses	(43 213 561)	(4 205 598)	**(47 419 159)**	(44 899 415)	**2 519 744**	Note 21
Total expenditure	**(103 597 716)**	**(15 554 502)**	**(119 152 218)**	**(130 331 454)**	**(11 179 236)**	
Operating surplus	**47 732 010**	**10 597 218**	**58 329 228**	**41 322 691**	**(17 006 537)**	
Loss on disposal of assets	-	(1 000 000)	**(1 000 000)**	(996 604)	**3 396**	45.16
Cash loss	-	-	**-**	(37 600)	**(37 600)**	
	-	**(1 000 000)**	**(1 000 000)**	**(1 034 204)**	**(34 204)**	
Surplus before taxation	**47 732 010**	**9 597 218**	**57 329 228**	**40 288 487**	**(17 040 741)**	
Surplus for the year excluding capital expenditure	**47 732 010**	**9 597 218**	**57 329 228**	**40 288 487**	**(17 040 741)**	
Capital Expenditure	53 703 132	3 626 095	**57 329 227**	50 976 402	**(6 352 825)**	
Comparison of Budget and Actual amounts	**101 435 142**	**13 223 313**	**114 658 455**	**91 264 889**	**(23 393 566)**	

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.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

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

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 13 - Provisions.

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on municipality combinations.

Useful lives of property plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation and amotisation charges for the property plant and equipment and the intangibles. This estimate is based on ithe pattern in which an asset property plant and equipment, future economic benefit or services potentials are expected to be consumed by municipality.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

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

Allowance for doubtful debts

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

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

1.4 Property, plant and equipment (continued)

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.

Subsequent to intial measurement property, plant and equipment is carried atcost less accumulated depreciatio 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**
Buildings	30 years
Furniture and fixtures	7-10 years
Motor vehicles	5 years
Office equipment	3-7years
IT equipment	3 years
Infrastructure	
• Roads and Paving	30 years
• Roads and Water	20 years
• Gravel Surface	3-10 years
Community	
• Recreational Facility	20-30 years
• Security	5 years
• Community Halls	30 years
• Libraries	30 years
• Parks and gardens	10 years
Other property, plant and equipment	
• Landfill sites	18 years
Bins and containers	10-15 years
Leased Assets	
• Office equipment	5 years
Specialised vehicles	10 years
Special plant and equipment	10-15 years

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

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

Accounting Policies

1.5 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality 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.

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.

Intangible asset are initially recognised at cost.

Where an intangible asset is acquired at no cost or for a nominal cost, cost is its par value as at the date of acquistion.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

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

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

Item	**Useful life**
Computer software, other	5 years

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

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

1.6 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (class) as reflected on the face of the statement of financial position or in the notes thereto, all of which are categorised as financial assets at amortised cost:

Class
Cash and cash equivalents
Trade receivables from exchange transactions
Receivables from non exchange transactions
Long term receivables from exchange transactions

The municipality has the following types of financial liabilities (class) as reflected on the face of the statement of financial position or in the notes thereto:

Class
Payables from exchange transactions
Consumer deposits

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality 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 municipality measures a financial asset and financial liability initially at its fair value.

The municipality 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 municipality 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, where it is the recipient of the loan.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality 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.
The amortised cost of financial assets / liabilities is the amount at which the financial assets/ liabilities is measured at initial recognition, minus prinicipal repayments, plus or minus the accumulative amortisation using the effective intrest rate method of any difference between the inital amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairments or uncollectability in the case of financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short term receivables are not discounted where the initial credit period granted or received is consistent with the term in the public sector, either through established practices legislation.

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 municipality 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.

1.6 Financial instruments (continued)

Where the financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amount previously written off are credited against operating expenses.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

1.7 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.

Operating Leases

The municipality recognises operating leases on the statement financial performance.

1.7 Leases (continued)

Finance leases - lessee

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

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

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

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

1.8 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 municipality, it generates a commercial return.

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

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

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

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

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

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

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

Useful life is either:

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

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

Identification

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

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

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

1.8 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

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

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the 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.

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

In allocating an impairment loss, the 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

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

1.9 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 municipality, 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.

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.

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

1.10 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

1.10 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise 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 benefits in the cost of an asset.

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 municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an 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 recognise 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, an municipality recognise 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. 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 obligation.

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.10 Employee benefits (continued)

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

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;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The 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, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity 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.

1.10 Employee benefits (continued)

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:
- estimated 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.

Long services awards

The municipality has an obligation to provide long term services allowances benefit of all its employees. According to its rules of the long term services allowance scheme, which the municipality is instituted an operates an employee (who is on the current condition of services), is entitled to cash allowance, calculated in terms of the rules of the scheme, 10,15,20,25 and 30 years of continued service.

The municipalities liability is based on the employes rendering their services and is based on acturial valuation .

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Accounting Policies

1.11 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 surplus.

If an 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 an 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 34.

Accounting Policies

1.12 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.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.13 Revenue from non-exchange transactions

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

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

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

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

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

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

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

1.13 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

Fines

Fines constitue both spot fines and summonses. Revenue from spot fines and summonses is recognised on initial recognition when fines are issued. The probability of on payment on the intial recognition is a subsequent event when assessing impairment and need not restate comparative information .

1.13 Revenue from non-exchange transactions (continued)

Property Rates

Revenue from rates, including collection charges and penalty interest is recognised when :

- It is probable that economic benefit or services potentiallly associated with the transaction will flow to the municipality
- the amount of the revenue can be measured reliabily; and
- to the extent that there has been compliance with the relevant requirements.

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are recognised as revenue and as assets.

1.14 Investment income

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

1.15 Borrowing costs

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

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

1.16 Comparative figures

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

1.17 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.

1.18 Fruitless and wasteful expenditure

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

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

Accounting Policies

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

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

1.20 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 2014/07/01 to 2015/06/30.

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

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

1.21 Related parties

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

1.21 Related parties (continued)

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

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

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

2. Revenue Recognition Traffic Fines (GRAP23 - iGRAP 1)

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year.

- In the prior year the municipality changed its accounting policy in terms of recognizing income from Traffic Fines. The reason for change in accounting policy was to comply with the requirements of IGRAP 1 on Revenue Recognition which require municipality to recognize income from Traffic Fines when they are issued, while traffic fine income was previously recognised on a cash basis.

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	
• GRAP 107: Mergers	01 April 2015	
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	

4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	96 289 536	(15 964 168)	80 325 368	88 041 997	(12 122 324)	75 919 673
Plant and machinery	8 731 168	(5 328 709)	3 402 459	6 418 251	(2 997 628)	3 420 623
Motor vehicles	4 831 145	(1 392 902)	3 438 243	4 903 541	(1 284 865)	3 618 676
Work in progress	61 334 049	-	61 334 049	49 511 827	-	49 511 827
Bins and containers	446 100	(89 220)	356 880	446 100	(59 480)	386 620
Leased Assets	386 090	(371 501)	14 589	386 090	(302 536)	83 554
Roads and Water	106 632 253	(34 414 646)	72 217 607	78 135 160	(27 552 561)	50 582 599
Total	**278 650 341**	**(57 561 146)**	**221 089 195**	**227 842 966**	**(44 319 394)**	**183 523 572**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Write Offs	Write Off Accumulated Depreciation	Depreciation	Impairment	Disposal Accumulated Depeciation	Total
Buildings	75 919 673	539 345	-	7 708 194	(1 224 643)	130 167	(2 747 368)	-	-	80 325 368
Plant and machinery	3 420 623	1 704 769	-	-	(151 057)	83 201	(841 975)	9 635	-	4 225 196
Motor vehicles	3 618 676	556 085	(628 481)	-	-	-	(656 890)	-	548 853	3 438 243
Work in progress	49 511 827	48 027 859	-	(36 205 637)	-	-	-	-	-	61 334 049
Bins and containers	386 620	-	-	-	-	-	(29 740)	-	-	356 880
Leased Assets	83 554	-	-	-	-	-	(68 965)	-	-	14 589
Roads and Water	50 521 265	-	-	28 497 443	-	-	(7 146 101)	(477 742)	-	71 394 865
	183 462 238	**50 828 058**	**(628 481)**	**-**	**(1 375 700)**	**213 368**	**(11 491 039)**	**(468 107)**	**548 853**	**221 089 190**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Write offs	Write off accumulated depreciation	Depreciation	Impairment	Disposal Accum Depreciation	Total
Buildings	61 031 031	247 000	17 630 881	-	-	(2 989 239)	-	-	75 919 673
Plant and machinery	3 497 174	796 193	-	(188 137)	-	(678 652)	(5 955)	-	3 420 623
Motor vehicles	2 068 105	2 525 589	-	(70 605)	(506 263)	(525 756)	-	127 606	3 618 676
Work in progress	31 063 113	36 079 595	(17 630 881)	-	-	-	-	-	49 511 827
Bins and containers	416 360	-	-	-	-	(29 740)	-	-	386 620
Leased Assets	160 772	-	-	-	-	(77 218)	-	-	83 554
Roads and Water	57 766 786	228 306	-	-	-	(6 736 414)	(676 078)	-	50 582 600
	156 003 341	**39 876 683**	**-**	**(258 742)**	**(506 263)**	**(11 037 019)**	**(682 033)**	**127 606**	**183 523 573**

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.

5. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 348 872	(897 424)	451 448	1 214 623	(751 699)	462 924

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Write - offs	Depreciation Writeback	Amortisation / Impairment	Impairment loss	Total
Computer software, other	462 924	148 344	(4 226)	1 499	(157 531)	438	451 44

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation / Impairment	Total
Computer software, other	1 126 787	87 836	(751 699)	462 924

6. Employee benefit obligations

Long Service Awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at 30 June 2015 by Independent Actuarial One Pangaea Financial (‘OPF’), Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Figures in Rand	2015	2014

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.59 %	8.59 %
Expected increase in salaries	7.36 %	7.36 %
Real Rate	1.15 %	1.15 %
General Inflation Rate	6.36 %	6.36 %
Examples of mortalty rates were used as follows:	-	-
Average retirement age	63	63
Mortality during employment	SA 85-90	SA 85-90

Members withdrawn from services: (Average for males and females)		
Age 20	12 %	12 %
Age 25	7 %	7 %
Age30	5 %	5 %
Age 35	4 %	4 %
Age 40	3 %	3 %
Age 45	2 %	2 %
Age 50	1 %	1 %
Age 55+	- %	- %

The amounts recognised in the Statement of Financial Position were determined as follow:		
Present value of funded obligations	1 295 165	800 987
Fair value of plan assets	-	-
Liability in the Statement of Financial Position	(1 295 165)	(800 987)
	-	-

Movements in the defined benefit obligation is as follows:		
Balance at beginning of the year	800 987	893 569
Current service & Interest cost	227 165	227 165
Benefit payments	(61 290)	(61 290)
Acturial (gain)/losses	328 303	(73 293)
Miscellaneous	-	(185 164)
	1 295 165	**800 987**

The amount recognised in the statement of financial position:		
Current service & interest cost	227 165	227 165
Benefit payments	(61 290)	(61 290)
Actuarial (gains)/ losses	328 303	(73 293)
	494 178	**92 582**

In conclusion		
Long service award	1 295 165	800 987

Statement of financial performance		
Long service award	494 178	(73 293)

Figures in Rand	2015	2014

6. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees belong to the Natal Joint Municipal Pension Fund (Superannuuation) and the Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

This schemes cannot be broken down per municipality, as they are considered to be a multi- employer schemes and hence are treated as a defined contribution scheme buy the municipality.

The municipality employees are also members of the KwaZulu Natal Municipal Provident Fund. All contributions have been included in the employee related cost note..

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

7. Receivables from non-exchange transactions

Rates Debtors	28 231 097	15 649 851
Fines	910 901	268 151
Less: Provisions for the year - Rates	(22 329 589)	(4 162 292)
Less: Provisions Fines	(720 980)	(268 150)
	6 091 429	**11 487 560**

Reconciliation of traffic fine debtors		
Opening balance	268 150	-
Raised during the year	968 200	475 700
Receipts	(286 400)	(207 550)
Written off	(39 050)	-
	910 900	**268 150**

Reconciliation of traffic fine debtors		
Opening balance	(268 150)	-
Raised during the year	(452 830)	(268 150)
	(720 980)	**(268 150)**

8. VAT receivable

VAT	2 174 640	1 684 266

VAT is accounted for on an accural basis but claimed / paid over to SARS on a cash basis.

9. Receivables from exchange transactions

Gross balances		
Creditors Overpayment	12 216	11 148
Other Debtors - MIG	200 380	-
Debtor PMU	96 782	155 115
Debtors Employee Overpayment	20 404	25 347
Refuse	3 789	-
Debtors - Rentals	35 660	2 480
Other Debtors	20 878	-
	390 109	**194 090**

Less: Allowance for impairment

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

9. Receivables from exchange transactions (continued)

Net balance		
Creditors Overpayment	12 216	11 148
Other Debtors - MIG	200 380	-
Debtor PMU	96 782	155 115
Debtors Employee Overpayment	20 404	25 347
Debtors-Waste	3 789	-
Debtors - Rentals	35 660	2 480
Other debtors	20 878	-
	390 109	**194 090**

Debtors Rental		
Current (0 -30 days)	9 929	-
31 - 60 days	23 250	-
	33 179	**-**

Refuse		
Current (0 -30 days)	3 789	-

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

10. Cash and cash equivalents (continued)

Cash on hand	66	171
Bank balances	8 311 074	5 516 810
Short-term deposits	69 293 629	65 532 678
Other cash and cash equivalents	33 485	-
	77 638 254	**71 049 659**

Current Account
First National Bank Hluhluwe - 62025236408

Balance as per cash book beginning of year	5 516 810	43 068 634
Balance as per cash book end of year	8 311 074	5 516 810
Balance as per bank statement beginning of the year	5 516 810	43 068 634
Balance as per bank statement end of year	8 311 074	5 516 810

Call Account
First National Bank Hluhluwe - 62055161146

Balance as per cash book beginning of year	935 624	913 877
Balance as per cash book end of year	962 969	935 624
Balance as per bank statement beginning of the year	935 624	913 877
Balance as per bank statement end of year	962 969	935 624

Call Account
First National Bank Hluhluwe - 62217154351

Balance as per cash book beginning of year	1 279 006	1 234 871
Balance as per cash book end of year	1 331 960	1 279 006
Balance as per bank statement beginning of the year	1 279 006	1 234 871
Balance as per bank statement end of year	1 331 960	1 279 006

Call Account
First National Bank Hluhluwe - 62266899825

Balance as per cash book beginning of year	723 149	698 429
Balance as per cash book end of year	752 804	723 149
Balance as per bank statement beginning of the year	723 149	698 429
Balance as per bank statement end of year	752 804	723 149

Call Account
First National Bank Hluhluwe - 74275256516

Balance as per cash book beginning of year	12 272 721	11 656 252
Balance as per cash book end of year	13 033 415	12 272 721
Balance as per bank statement beginning of the year	12 272 721	11 656 252
Balance as per bank statement end of year	13 033 415	12 272 721

Call Account
Standard Bank - Empangeni Branch - 068824491

Balance as per cash book beginning of year	16 109	15 680
Balance as per cash book end of year	16 638	16 109
Balance as per bank statement beginning of the year	16 109	15 660
Balance as per bank statement end of year	16 638	16 109

Call Account
Nedbank Richards Bay -28702097

Balance as per cash book beginning of year	26 920	25 882
Balance as per cash book end of year	28 195	26 920
Balance as per bank statement beginning of the year	26 920	25 882
Balance as per bank statement end of year	28 195	26 920

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

10. Cash and cash equivalents (continued)

Call Account
First National Bank 62424086785

Balance as per cash book beginning of year	18 391 150	18 391 150
Balance as per cash book end of year	19 377 877	18 391 150
Balance as per bank statement beginning of the year	18 391 150	18 391 150
Balance as per bank statement end of year	19 377 877	18 391 150

Fixed Deposit
First National Bank -7440651041

Balance as per cash book beginning of year	31 887 999	31 887 999
Balance as per cash book end of year	33 789 770	31 887 999
Balance as per bank statement beginning of the year	31 887 999	31 887 999
Balance as per bank statement end of year	33 789 770	31 887 999

11. Finance lease obligation

Minimum lease payments due		
- within one year	26 903	130 755
- in second to fifth year inclusive	-	26 903
	26 903	157 658
less: future finance charges	(1 199)	(32 199)
Present value of minimum lease payments	**25 704**	**125 459**

Present value of minimum lease payments due		
- within one year	25 704	99 755
- in second to fifth year inclusive	-	25 704
	25 704	**125 459**

Non-current liabilities	-	25 704
Current liabilities	25 704	99 755
	25 704	**125 459**

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

The average lease term was 5 years and the average effective borrowing rate was 2.4% (2014: 2.4%).

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

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant	-	132 825
DOS Sports Field	97 742	525 000
COGTA - Small Town Rehabilitation	162 260	162 260
Spatial Development	100 000	100 000
Manguzi Road Project	17 307	17 307
Library Grant	181 569	323 113
Urban Development	907 195	907 195
DEP Energy Electrification	-	175 433
Manzengwenya Project	7 500	7 500
M A P	251 168	251 168
Phelandaba Development Grant	178 600	178 600
Nhlange Lake Restaurant	5 600	5 600
KwaTembe Concrete Project	86 111	86 111
Mbazwana and Munguzi Hubs	160 000	160 000
Community Participation Grant	2 000	2 000
Tourism and Environmental Affairs Grant	200 000	-
	2 357 052	**3 034 112**

See note 17 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

13. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	8 720 926	741 279	9 462 205
Employee benefit cost	800 987	494 178	1 295 165
	9 521 913	**1 235 457**	**10 757 370**

Reconciliation of provisions - 2014

	Opening Balance	Provision charge	Total
Environmental rehabilitation	8 720 926	-	8 720 926
Employee benefit cost	893 569	(92 582)	800 987
	9 614 495	**(92 582)**	**9 521 913**

Basis of Calculations:

Future Value	14 523 210.
i	8,5
N	18
Formula	FV(1+r) N

Environmental rehabilitation provision

The municipality operates 3 Landfill sites, wich are Thandizwe, Mbazwana and Skhemelele.

The Municipality estimated rehabilitation cost are R9 462 205 (2014: R8 720 926) to restore the landfil site at the end of its useful life, estimated to be 18 year. The amount of rehabilitation is dependent on future costs technology, inflation and site consumption. The discount rate of the provision was 8.5% (2014: 8.5%).

The financial implication of rehabilitating the landfill site was determined by the independent practisioner engineer MpumeNaleli Technologies.

Loang service award provision

A long service award is payable after 10 years of continous service and every 5 years thereafter to employees.

A provision is an estimate of the long service award base on historical staff turnover, taking into account management estimate of the likelihood that staff may leave before long service become due.

No other long service benefits are provided to employess.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

14. Payables from exchange transactions

Trade payables	602	4 014 306
Accrued leave pay	1 306 569	784 226
Accrued bonus	606 470	431 446
Accrued expense	32 601	33 594
Retension Creditors	3 557 949	3 366 859
Creditors control	2 002 091	-
Payroll Creditors	18 624	-
Other Creditors	10 118	123 373
	7 535 024	**8 753 804**

15. Revenue

Service charges	79 766	-
Interest received (trading)	1 209 815	-
Licences and permits	3 818 790	3 878 140
Rental income	79 652	37 127
Other income	234 205	741 662
Interest received - investment	4 973 842	4 197 219
Property rates	29 543 512	14 523 210
Government grants & subsidies	130 714 060	104 048 129
Public contributions and donations	32 303	-
Fines	968 200	475 700
	171 654 145	**127 901 187**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	79 766	-
Interest received (trading)	1 209 815	-
Licences and permits	3 818 790	3 878 140
Rental income	79 652	37 127
Other income	234 205	741 662
Interest received - investment	4 973 842	4 197 219
	10 396 070	**8 854 148**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	29 543 512	14 523 210
Transfer revenue		
Government grants & subsidies	130 714 060	104 048 129
Public contributions and donations	32 303	-
Fines	968 200	475 700
	161 258 075	**119 047 039**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. Property rates

Rates received

Commercial	7 129 904	3 166 530
State	11 183 595	4 603 000
Agricultural	-	58 468
Ingonyama Trust	12 361 333	6 695 213
Hospitality	603 500	-
Less: Income forgone	(1 739 271)	-
	29 539 061	**14 523 211**

Valuations

Residential / Hospitality	87 500 000	26 558 000
Commercial	352 270 000	159 670 000
State	610 550 000	430 123 528
State trust Land	880 900 000	330 849 976
Agricultural	-	2 100 000
Other	4 300 000	600 000
	1 935 520 000	**949 901 504**

Valuations on land and buildings are performed every 5 years. The latest general valuation came into effect on 1 July 2014. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions including new developments.

Adopted rate tarriff

Agriculture		0.0026
Commercial	0.8484	0.0211
Public Service Infrastructure	0.1060	0.0026
Public Benefit Organisation	0.0000	0.0126
Vacant Land		0.0528
State Trust Land	0.1060	0.2112
Special non Market Properties	0.8484	0.0026
Refuse Rate		
Business Fixed Rate		R120
Residential / Hospitality	0.4242	

The Valuation came into effect on: 01/07/2014

Agricultural Properties	- %	- %
Residental /Hospitality Properties	100 %	100 %
Pensioners	100 %	100 %
Public benefit Organisations	100 %	100 %
Sporting Bodies	100 %	100 %

Developed residential properties Valueof R55 000 and less.

Land tenure rights reflected in the valuation roll states that for this valuation cycle, only the commercial and institutional units can be identified, valued and rated.

Supplementary valuations Roll prepared by BPG Appraisals valuer Finely Hamilton, Diploma in property valuation.

Figures in Rand	2015	2014

17. Government grants and subsidies

Operating grants		
Equitable share	87 707 000	68 319 062
Financial Management Grant	1 800 000	1 650 000
EPWP Grant	1 355 000	1 000 000
Library Grant	1 617 544	1 571 662
Municipal Systems Improvement Grant	1 066 825	757 175
	93 546 369	73 297 899
Capital grants		
Municipal Infrastructure Grant	32 490 000	23 802 000
Electrification Grant	2 675 433	6 824 567
Sport Ground	2 002 258	123 663
	37 167 691	30 750 230
	130 714 060	**104 048 129**

MSIG

Balance unspent at beginning of year	132 825	-
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(1 066 825)	(757 175)
	-	**132 825**

Department of Sport

Balance unspent at beginning of year	525 000	123 663
Current-year receipts	1 575 000	525 000
Conditions met - transferred to revenue	(2 002 258)	(123 663)
	97 742	**525 000**

Small Town Reabilitation

Balance unspent at beginning of year	162 260	162 260

Arts and Culture Grant

Balance unspent at beginning of year	100 000	100 000

Project Consolidate Manguzi

Balance unspent at beginning of year	17 307	17 307

Library Grant

Balance unspent at beginning of year	323 113	474 776
Current-year receipts	1 476 000	1 420 000
Conditions met - transferred to revenue	(1 617 544)	(1 571 663)
	181 569	**323 113**

Urban Development Grant

Balance unspent at beginning of year	907 195	907 195

Department of energy

Figures in Rand	2015	2014

17. Government grants and subsidies (continued)

Balance unspent at beginning of year	175 433	2 437 062
Current-year receipts	2 500 000	7 000 000
Conditions met - transferred to revenue	(2 675 433)	(9 261 629)
	-	**175 433**

Manzengwenya Project

Balance unspent at beginning of year	7 500	7 500

Municipal Assistance Program

Balance unspent at beginning of year	251 168	251 168

Phelandaba Development Grant

Balance unspent at beginning of year	178 600	178 600

Nhlange Lake Restaurant

Balance unspent at beginning of year	5 600	5 600

Kwa Tembe Concrete Project

Balance unspent at beginning of year	86 111	86 111

Mbazwana and Manguzi Hubs

Balance unspent at beginning of year	160 000	160 000

IDP Community Participation

Balance unspent at beginning of year	2 000	2 000

MIG

Balance unspent at beginning of year	-	-
Current-year receipts	32 490 000	23 802 000
Conditions met - transferred to revenue	(32 490 000)	(23 802 000)
	-	**-**

FMG

Balance unspent at beginning of year	-	-
Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 650 000)
	-	**-**

EPWP

Balance unspent at beginning of year	-	-
Current-year receipts	1 355 000	1 000 000
Conditions met - transferred to revenue	(1 355 000)	(1 000 000)

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

17. Government grants and subsidies (continued)

	-	-

18. Rental Income

Rental income	79 652	37 127
Other income	234 205	741 662
	313 857	**778 789**

19. Other income

Business Licensing	800	2 200
Sundry income	64 490	555 145
Library Income	25 405	26 378
Tender documents	143 510	157 939
	234 205	**741 662**

20. Interest Income

Interest received -Debtors	1 209 815	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

21. General expenses

Accommodation	867 762	778 895
Advertising	386 196	1 292 433
Arts and Culture	956 157	498 173
Audit committee fees	209 732	114 218
Auditors remuneration	2 976 152	2 436 180
Bank charges	104 967	97 350
Bursaries	381 130	278 385
Card Production cost	338 989	394 908
Cleaning	322 662	60 817
Community Programme	386 342	125 484
Community participation	3 630 181	3 878 263
Computer expenses	1 337 286	2 227 407
Conferences and seminars	-	12 092
Consulting and professional fees	1 949 432	1 075 365
Disability Program	72 450	73 130
Disaster Management	4 691	112 795
Feastive Support Programme	425 131	172 870
Fixed Asset Register	321 650	95 753
Fuel and oil	1 536 267	1 507 641
Gender awarness	-	82 718
HIV / AIDS Programme	619 200	221 503
IDP Review	1 974 698	1 132 207
Indigent Support	601 890	452 801
Insurance	345 163	230 685
Leave pay	543 530	393 384
Marketing	1 090 751	-
Office and website rental	160 306	183 438
Other expenses	507 011	-
LED Project	1 410 189	-
Postage and courier	486 865	529 878
Poverty alleviation	4 236 116	2 768 405
Printing and stationery	1 203 229	613 558
Promotions and sponsorships	72 855	38 330
Refuse	681 986	483 786
Review of policies	115 000	139 451
SMME Development	662 107	443 728
School Support Programme	554 262	440 730
Security	1 943 195	1 693 581
Sewerage and waste disposal	697 358	3 421 053
Software expenses	202 873	535 870
PMS Support	903 684	-
Staff welfare	1 019 765	362 042
Strategic Planning	1 081 568	591 692
Subscriptions and membership fees	500 983	375 562
Telephone and fax	-	158 500
Tourism development	26 900	131 464
Training	535 392	381 086
Transit costs	52 648	45 354
Uniforms	87 362	76 540
Valuation Roll	438 084	1 031 237
Ward Committees	2 335 362	739 175
Water and Electricity	329 300	331 332
Women Summit	144 396	154 052
Youth Program	592 000	225 400
	42 363 205	**33 640 701**

21. General expenses (continued)

	Current year 2015	Prior year 2014	Percentage of increase or decrease	Material increase or decrease above 60%
Accommodation	867 762	778 895	10.00 %	
Advertising	386 196	1 292 433	70.00 %	The vote for markerting and advertising were split hence the decrease
Arts and Culture	956 157	498 173	92.00 %	Budget was increased as a result of input from IDP consultative meetings with the community to cover more areas within the Municipal jurisdiction
Audit Committee	209 732	114 218	84.00 %	Number of meetings were increased in order to ensure that the Municipality implements recommendations by internal and external auditors in order to achieve improved audit outcomes
Audit remuneration	2 976 152	2 436 180	22.00 %	The hours increased as presented in their audit plan and engagement letter
Bank Charges	104 967	97 350	8.00 %	
Bursaries	381 130	278 385	37.00 %	Increased the number of students from local community assisted with registration fee to various tertiary institutions
Card Production	338 989	394 908	14.00 %	There was an increase in people who obtained their licences from the Municipality's traffic department
Cleaning	322 662	60 817	431.00 %	The cleaning services were extended to all municipal site hence the increase in cost of cleaning material whereas previously it was only provided for the main building

Figures in Rand		2015	2014		

21. General expenses (continued)

Community Program	386 342	125 484	208.00 %	Public participation meetings were increased to reach vast areas within the municipal jurisdiction with the view to increase service delivery
Community Participation	3 627 623	3 878 263	6.00 %	
Computer expenses	1 301 556	2 227 407	42.00 %	There were major repairs and upgrades to the network
Conferences	-	12 092	100.00 %	Library have cancel conferences for their staff.
Consulting and professional fees	1 949 432	1 075 365	81.00 %	On site support increased due to change from Abakus to Pastel
Disability Program	72 450	73 130	1.00 %	
Disaster Management	4 691	112 795	96.00 %	There were no disasters during the year
Feastive Support Program	417 571	172 870	142.00 %	Management have increase number of life guard during feastive support.
Fixed Asset Register	321 650	95 753	236.00 %	Compilation of FAR included infrastructure conditional assessment
Fuel and Oil	1 536 267	1 507 641	2.00 %	
Gender awarness	-	82 718	100.00 %	No activities were conducted during the year
HIV/ AIDS Programme	619 200	221 503	180.00 %	Budget was increase to fight against HIV and AIDS.
IDP Review	1 974 698	1 132 207	74.00 %	Management has increase number of community meetings.
Indigent Support	598 099	452 801	32.00 %	Management increased indegent support to reach more members within the community
M	345 163	230 685	50.00 %	More assets were acquired during the year
Leave pay	543 530	393 384	38.00 %	More employees left the Municipality hence increase in leave pay

Notes to the Annual Financial Statements

Figures in Rand			2015	2014

21. General expenses (continued)

Marketing	1 090 751	-	100.00 %	New vote as a result of split from Advertising and Markerting
Office and website rental	138 640	183 438	24.00 %	Municipality uses the services of SITA instead of the external service provider
Other expenses	507 011	-	100.00 %	News letter, fireservices
LED Project	1 410 189	-	100.00 %	Council has introduced new projects.
Postage and couriers	486 865	529 878	8.00 %	
Poverty alleviation	4 236 116	2 768 405	53.00 %	Number of projects for poverty alleviation increased
Printing and stationery	1 203 229	613 558	96.00 %	Number of site have increase with new employees being appointed.
Promotions and sponsorships	72 855	38 330	90.00 %	Increase number of promotion as library services.
Refuse	681 986	483 786	41.00 %	Increased number of areas collected
Review of policies	-	139 451	100.00 %	Included in the consulting fees.
SMME Development	660 304	443 728	49.00 %	Increased projects for SMME Developments
School Support Programme	490 557	440 730	11.00 %	
Security	1 943 195	1 961 731	1.00 %	
Sewerage and waste management	636 108	3 421 053	81.00 %	Settlement that was made by the council to service provider last year hence the decrease in the expenditure.
Software expense	202 873	535 870	62.00 %	The software vote decrease as a result on the implementation of the reasonable financial system that it cost are less when compared to the previous financial system

Notes to the Annual Financial Statements

Figures in Rand	2015	2014		

21. General expenses (continued)

PMS Support	903 684	-	100.00 %	The municipality received adverse opinion under PMS, therefore the service provider was appointed to assist with PMS related matter including alignment of documents
Staff welfare	1 018 943	362 042	181.00 %	Increase in appointments.
Strategic Planning	1 081 568	591 692	83.00 %	Budget was increase by introduction of new projects and working session.
Subscription and membership fees	500 983	375 562	33.00 %	
Telephone and fax	-	158 500	(100.00)%	
Tourism development	26 900	131 464	80.00 %	Projects were transferred to LED projects.
Training	535 392	381 086	40.00 %	
Transit cost	52 648	45 354	16.00 %	
Uniforms	87 362	76 540	14.00 %	
Valuation roll	438 084	1 031 237	58.00 %	
Ward committees	2 335 362	739 175	216.00 %	Council took a resolution to increase the ward committee payment for services rendered at ward level
Water and Electricity	328 046	331 332	1.00 %	
Women summit	144 396	154 052	6.00 %	
Youth Program	592 000	225 400	163.00 %	Youth program vote was increased to accommodate youth needs as raised in the IDP
	42 048 066	**33 908 851**	**3 963.00 %**	

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Employee related costs

Basic	23 721 108	17 400 529
Cell phone allowances	708 715	142 441
Bonus	1 385 373	978 911
Medical aid - company contributions	668 992	396 432
UIF	193 056	139 518
SDL	276 349	208 250
Travel, motor car, accommodation, subsistence and other allowances	1 212 076	3 581 937
Overtime payments	534 625	410 764
Long-service awards	494 178	(92 582)
Car allowance	974 244	-
Standby allowance	360 000	108 000
Group Life	368 032	370 909
Pension Fund	1 258 392	941 365
Bargaining Council	7 417	18 312
	32 162 557	**24 604 786**

Remuneration of municipal manager

Annual Remuneration	821 998	778 407
Car Allowance	139 020	139 020
Performance Bonuses	73 980	41 000
Contributions to UIF, Medical and Pension Funds	19 950	22 623
Reimbursive Travel	52 652	59 312
Cell phone Allowance	30 000	24 400
Backpay	17 352	45 091
Leave encashment	-	126 705
	1 154 952	**1 236 558**

Remmuneration to the municipal manager for the full year.

Remuneration of chief finance officer

Annual Remuneration	640 184	606 235
Car Allowance	122 616	112 809
Performance Bonuses	54 415	32 009
Contributions to UIF, Medical and Pension Funds	78 212	34 539
Reimbursive Travel	22 260	10 360
Cell phone Allowance	25 200	18 200
PMU	-	(27 000)
Leave Payout	-	88 812
	942 887	**875 964**

Remmuneration to the chief financial officer for the full year.

Remuneration of director - community services

Annual Remuneration	552 183	335 729
Car Allowance	122 616	77 133
Performance Bonuses	17 489	-
Contributions to UIF, Medical and Pension Funds	14 014	14 854
Cell phone Allowance	25 200	13 749
	731 502	**441 465**

The remmuneration of the director for communty services was paid in full during the year.

Figures in Rand	2015	2014

22. Employee related costs (continued)

Corporate and human resources (corporate services)

Annual Remuneration	577 384	17 800
Car Allowance	122 616	3 780
Contributions to UIF, Medical and Pension Funds	116 651	-
Cell phone Allowance	25 200	777
Backpay	21 580	-
	863 431	**22 357**

The remmuneration of the director for corporate services was paid in full during the year.

Remmuneration of director technical services

Annual Remuneration	590 119	469 177
Car Allowance	122 616	122 616
Performance Bonuses	42 136	24 750
Contributions to UIF, Medical and Pension Funds	89 203	47 401
Re imbursive Travel	61 095	19 300
Cell phone Allowance	25 200	18 200
Backpay	-	65 457
PMU	(15 000)	(15 000)
Leave encashment	-	72 770
	915 369	**824 671**

The remmuneration for technical services director waspaid in full for the year.

23. Remuneration of councillors

Mayor	374 764	370 044
Deputy Mayor	304 459	341 158
Exco Members	1 147 536	1 180 335
Speaker	304 459	411 345
Councillors	4 097 372	3 725 981
Travel Allowance	1 226 316	1 747 666
Cell phone Allowance	529 286	748 021
Data Allowance	91 638	122 400
	8 075 830	**8 646 950**

In-kind benefits

The Mayor and Speaker are provided with an office and secretarial support at the cost of the Council.

The Mayor has a Council owned vehicles for official duties with a driver and bodyguard at the cost of the Council.

24. Debt impairment

Contributions to debt impairment provision	18 620 127	2 371 290
Bad debts written off	5 602 975	254 500
	24 223 102	**2 625 790**

25. Investment revenue

Interest revenue		
Bank	4 973 842	4 197 219

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Depreciation and amortisation

Property, plant and equipment	11 647 072	10 937 617

27. Impairment of assets

Impairments		
Impairment Fixed Assets	471 063	954 863

28. Finance costs

Other interest paid	844 244	791 165

29. Auditors' remuneration

Fees	2 976 152	2 436 180

30. Contracted services

Other Contractors	41 565	56 474

31. Grants and subsidies paid

Finance Management Grant	685 267	1 324 093
EPWP	158	113 354
Sports and Recreation	1 945 706	1 182 828
	2 631 131	**2 620 275**

32. Cash generated from operations

Surplus	40 152 001	40 770 012
Adjustments for:		
Depreciation and amortisation	11 647 072	10 937 617
Loss on sale of property, plant and equipment	996 604	178 657
Impairment deficit	471 063	954 863
Debt impairment	-	971 097
Movements in provisions	1 235 457	2 351 549
Other non cash items	35 363	(1 950)
Assets written off	393 207	254 500
Other non-cash items - donations	-	(266 199)
Changes in working capital:		
Receivables from exchange transactions	(471 063)	(4 283 662)
Receivables from non-exchange transactions	5 396 131	269 265
Payables from exchange transactions	(1 218 780)	(1 120 738)
VAT	(490 374)	2 495 107
Trade payables (non exchange)	-	52 574
Unspent conditional grants and receipts	(677 060)	1 879 130
Prior year adjustment	-	(1 240 419)
Cash losses written off	37 600	-
Impairment - intangibles	157 531	-
	57 664 752	**54 201 403**

Figures in Rand	2015	2014

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Mbubeni - Majola Access Road	-	1 297 041
• Manaba Mlamula Access Road	-	675 290
• Ezangomeni Mngomezulu Access Road	-	668 099
• Qongwana Access Road	-	11 393
• Mntanenkosi AccessRoad	-	79 978
• Sbhoweni Community Centre	-	339 569
• Manguzi Public Toilets	-	56 033
• Mseleni Sportsfield	-	88 270
• Nyamazane Sportsfield	7 164	271 574
• Mseleni Electricfication	-	427 455
• Mboza Electrification	4 521 212	-
• Bhekabantu Sportfield	402 642	-
• Ntshongwe Electrification	5 800 784	-
• Nsukumbili bridge	171 592	-
• Municipal Gate	20 267	-
	10 923 661	**3 914 702**

Operating commitments		
• Commitments	1 439 511	-

Commitments are funded by Grants, own revenue and reserves.

34. Contingencies

Contingent liabilities

Contingencies for landfill sites have been replaced by provision for rehabilitation costs disclosed in Note 13 for all landfill sites. Refer to detailed explainations below for other contingencies.

Rehabilitiation of Skhemelele Dumpsite	-	218 080
Rehabilitiation of Mbazwana Dumpsite	-	80 032
Umkhumbi Plan Hire	-	350 000
Evictions of traders from the main road	-	700 000
	-	**1 348 112**

Umkhumbi Plant Hire

An out of court settlement was reached between the municipality and Mkhumbi Plant hire.

Evictions

An agreement has been reached between municipality and informal traders to move traders to new market stalls once the construction of the market stalls have been finalised at an agreed monthly rental with informal traders.

35. PRIOR PERIOD ERRORS

1. Property Plant and Equipment

35. PRIOR PERIOD ERRORS (continued)

There were errors in the calculation of depreciation that were noted during the year, that relates to property, plant and equipment, repairs and maintanance incorrectly expensed and were adjusted as a prior year error.

The effect of these adjustments on the prior year is as follows:

	Previously stated	Restatement	Restated
Property, plant and equipment	182 295 367	1 228 205	183 523 572
Decrease in PPE - Accumulated depreciation		94 284	
Decrease in PPE - Accumulated depreciation		1 079 172	
Addition to Furniture and Office Equipment		54 750	
Accumulated surplus		(1 228 205)	

2. Trade receivables from exchange transactions

An overpayment was made on behalf of an employee to the third party in the prior year and the error was discovered in the current year R534.
Several long oustsanding other debtors which had already been received by the municipality in the prior year were cleared on the current year. They include medical aid, pension, SALGABC and debtor overpayment totaling R 9 659.

	Previously stated	Restatement	Restated
Trade receivables from exchange transactions	204 283	(10 193)	194 090
Medical aid		(6 403)	
Pension		(1 329)	
SALGABC		(703)	
Creditor overpayment		(534)	
Debtor overpayment		(1 224)	
Accumulated surplus		10 193	

3. VAT recievable

An error of understatement of VAT receivable amounting to R258 065 for the prior year was discovered in the current year and corrected in the prior year and it reconciles with amounts received from SARS.

	Previously stated	Restatement	Restated
VAT Receivable	1 426 200	258 065	1 684 265
VAT receivable		258 065	
Accumulated surplus		(258 065)	

4. Accounts payable

There were outstanding invoices from prior years for suppliers that were settled.

	Previously stated	Restatement	Restated
Payables from exchange transactions	9 104 597	(346 556)	8 753 805
Payroll creditors		46 715	
Bonus provision		70 695	
Creditors control		120 629	
Trade payables		108 517	
Accumulated surplus		(346 556)	

Reconciliation of correction of error accumulated surplus on statement of chabges in net assets

Balance as at 30 June 2014	204 369 893
Error corrected in the prior year	1 822 633
-Property, plant and equipment	**1 228 205**
-Trade receivables from exchange transaction	**(10 193)**
-VAT Receivable	**258 065**
-Payables from exchange transactions	**346 556**

35. PRIOR PERIOD ERRORS (continued)

	206 192 626
-Accumulated Surplus Current Yr	45 377
Restated balance at 30 June 2014	206 237 903

36. Comparative figures

Certain comparative figures have been reclassified to correctly reflects expenditure in the correct category.
The effects of reclassification is as follows:

	Balance 2014	Reclassification	Adjusted figure
Personel Expenditure	24,604,786	(2,464,403)	22,2140,383
Remuneration of Councilors	6,182,547	2,464,403	8,646,950

Subsistance travelling for mayor was disclosed as part of Personel Expenditure prior year. In the current year it was moved to Remuneration for Councilors.

	Balance 2014	Reclassification	Adjusted figure
Personel Expenditure	22,140,383	393,384	22,533,767
General expenditure	33,640,701	(393,384)	33,247,316

Leave pay amount disclosed as general expenditure prior year, current year disclosed as personel expenditure.

	Balance 2014	Reclassification	Adjusted figure
Grant funded expenditure	-	2,620,275	2,620,275
General expenditure	35,867,591	(2,620,275)	33,247,316

Grant expenditure was disclosed as part of general expenditure prior year, currently disclosed as its own category.

	Balance 2014	Reclassification	Adjusted figure
Asset written off	-	254,500	254,500
Debt Impairment	2,639,440	(254,500)	2,384,940
General Expenditure	33,372,551	(268,150)	33,640,701
Impairment loss	686,713	268,150	954,863

Reallocation of asset write off and debt impairment for general expenditure to be disclosed in their correct categories.

37. Risk management

Financial risk management

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

37. Risk management (continued)

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.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2015	Less than a year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables from exchange transactions	7 174 478	-	-	-
Financial Leases	-	-	-	-
	7 174 478	**-**	**-**	**-**

2014	Less than a year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade payables from exchange transactions	9 104 599	-	-	-
Financial Leases	25 704	-	-	-
	9 130 303	**-**	**-**	**-**

Credit risk

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

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

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

Financial instrument	2015	2014
Receivables from exchange transactions	357 388	204 283
Receivables from non - exchange transactions	187 142	-
Cash and cash equivalents	77 821 159	71 049 659

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

38. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 287 159 925 and that the municipality's total assets exceed its liabilities by R 287 159 925.

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.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

38. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality .

39. Events after the reporting date

There were no known post balance sheet events that has occurred between the reporting date and the date of approval of these annual financial statements.

40. Unauthorised expenditure

Unauthorised expenditure	-	-
Opening balance	-	1 317 215
Virement	-	(1 317 215)
	-	**-**

41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	4 084	23 631
Opening Balance	5 938 497	5 914 866
	5 942 581	**5 938 497**

42. Irregular expenditure

Opening balance	78 117 624	47 667 787
Add: Irregular Expenditure - current year capital	2 524 451	29 472 108
Add: Irregular Expenditure - current year -current	-	977 729
	80 642 075	**78 117 624**

43. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year external audit fees	1 493 323	1 615 763
Amount paid - current year	(1 493 323)	(1 615 763)
	-	**-**

PAYE and UIF

Opening balance	82 170	84 307
Current year subscription / fee	5 552 690	4 955 089
Amount paid - current year	(5 616 236)	(4 957 226)
	18 624	**82 170**

Pension and Medical Aid Deductions

Opening balance	(1 192)	3 100
Current year subscription / fee	1 882 843	2 207 042
Amount paid - current year	(1 881 651)	(2 211 334)
	-	**(1 192)**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

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

VAT

VAT receivable	2 174 640	1 684 266

VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

Contribution to organised local government

Opening balance	-	-
Current year payroll deduction and council contribution	48 730	375 562
Amount paid - current year	(48 730)	(375 562)
	-	**-**

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

Repairs and maintenance of motor vehicles by insurance preferred dealerships and local newspaper advetisments were incurred during the financial year under review and the process followed by incurring those services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officers who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Opening balance	2 924 128	1 240 517
Deviations for the current year	394 818	1 683 611
Noted by Council	-	-
	3 318 946	**2 924 128**

45. Budget differences

Material differences between budget and actual amounts

45.1 The actual expenditure over the final aproved budget increased by 142.33% as a result of provision for Ingonyama Trust debtors which was previously not provided for in prior periods.

Other changes were due to the implementation of the new valuation roll as there were changes in rates properties.

A council resolution was also taken during the current year to writte off certain properties that did not fall into the jurisdiction of the municipality after the new valuation roll was issued. Other properties were protected area and municipality errouneously billed the properteis.

45. Budget differences (continued)

Material difference was considered for variances above 10% in the budget statement.

45.2 An increase was due to interest on debtor overdue accounts which was previously exempted by council.

45.3 Revenue from rental facilities, license and permits increased due to changes in the approved rates/tariffs and addittional market stalls added to revenue streams.

45.4 Revenue anticipated from tender documents increased as more infrastructure project were to be awarded. Business license income and overall revenue collection increased.

45.5 Interest from Investments increased due to increase in an capital investment on call accounts.

45.6 Property rates was increased due to expected increase in property values in a valuation roll during the financial year.

45.7 Government grants and subsidies allocation increased.

45.8 Public contributions and donations increased due to assets donated by department of arts and culture.

45.9 Fines issued increased during the year.

45.10 Employee costs decreased due to staff leaving municipality.

45.11 Adjustment to depreciation as a results of incorrectly calculated depreciation in prior years, and current year impairments.

45.12 Impairment loss increased because certian property, plant and equipment were impaired during the financial period, this was done after conditional assessment was conducted.

45.13 Finance charges includes interest on finance leases and rehabilitation on landfil site.

45.14 The debt impairment for for current year increased significantly due to:
1. Provision in relation to Ingonyama Trust debtors which was not raised in prior years.
2. Properties that were billed incorrectly (properties in protected areas) and were written off

45.15 Repairs and Maintenance decreased as a results of some assets that were captalised.

45.16 Budget was increased due to unplanned disposal of obsolete and ageing assets.
General expenditure increased due to repairs and maintenance allocation, and other ad-hoc expinditure for budget purposes. For detailed explaination refer to note 21.

45.17 Capital budget comprises of 5 catagories namely: Municipal access roads, buildings, sportfields, electrification and other assets. The total approved budget was R57,329,228 and the total expenditure was R50,976,402 with an underspending of 11% from sportsfiels and other assets. The underspending in sportfields is due to delay in completion of the zamazama sportfield. The underspending in other assets is due to National road N22 extention by SANRAL which delayed the installation of street lights.

Changes from the approved budget to the final budget

Figures in Rand	2015	2014

45. Budget differences (continued)

Revenue

Interest Received
Interest received on outstanding balance was not budgeted in the original budget, which was based on the past experience where interest was not charged. In the current financial interest was levied on the long outstanding debtors. Reference 45.2.

Licenses and permits
Performance at Traffic Station exceeded the original budget then budget was increased by R 349 500.00 revenue. Ref 45.3.

Rental Income
During the year we stated to bill for market stall hence the budget was increased by R 80 000.00. Ref 45.3.

Other incomes
Revenue which was anticipated from Business licenses, Tender monies library income and overall revenue increase hence the adjustment was made during the adjustment budget.

Interest Received –Investments
More than budgeted revenue was realized from municipal investments hence the increase in the interest received from investment by R 727 481.00. Ref 45.5.

Property rates
The increase in revenue for property rate resulted from the Second General Valuation Roll which was received by the municipality after the original budget was approved by council, which means the original budget was based on the old valuation roll. The new general valuation roll has more properties and the value have increase to most of the properties. Ref 45.6.

Government Grants
The Government grants were adjusted by the approved roll-overs i.e MSIG R 132 825, Library Grant R 449 113.00, Electrification R 2 500 000.00 and other old grants. Ref 45.7.

Public contribution and donations
Equipment that was donated by the department of sport and recreation which amounted to R 32 303.00. Ref 45.8.

Fines
Performance at Traffic Station exceeded the original budget then budget was increased by R 518 200.00 revenue. Ref 45.9.

Expenditure

Personnel
The personnel expenditure decreased during the budget adjustment because certain positions which were budgeted for council took a resolution not to appoint in those positions such as Programs Manager position.

Depreciation
Budget was adjusted based on the audited annual financial statements together with the assets which were acquired during the current financial year.

Impairment loss
Impairment loss was not budgeted during the original budget, but it appeared during the year that certain asset will require impairment hence management decided to provide for impairment.

Finance costs
Budget was increased to accommodate Interest raised for finance lease and for the provision of land fill sites that was not provided for on the original budget.

Debt impairment
During the financial year council took a resolution to impair debtors where management discovered that properties fall outside the jurisdiction of Umhlabuyalingana municipality and those properties that no longer exist, hence the budget was increased for debt impairment.

Repairs and Maintenance

Notes to the Annual Financial Statements

45. Budget differences (continued)

The budget for repairs and maintenance was re-allocated to general expense after careful consideration by management, it was discovered that the nature of expenditure constitute general expenditure not repairs and maintenance.

General expenses

The budget for general expense increase during the adjustment budget because of the re-allocation of budget from repairs and maintenance and a number of general expenditure vote that were increased during the adjustment budget to enhance service delivery which was suggested by the council during the preparation of the adjustment budget.

Loss on disposal of assets

The council during the financial year took a resolution to dispose municipal asset which instructed management to provide for such expenditure in the adjustment budget.

Capital Expenditure

Capital budget increased during the adjustment budget part of the increase emanated from the approval of roll overs for electricity grant which allowed capital budget to increase. The other part was from the capital project that were not completed in the previous financial year and which were not budgeted for in the current financial year.