Planning by	Reviewed	Performed by	Final review

Maphumulo Local Muncipality
Annual Financial Statements
for the year ended 30 June 2015

General Information

Mayoral committee	
Mayor	Cllr. H.N. Ngcobo (ANC - 01/07/2013 to date)
Councillors	Cllr. V.E. Mbatha (ANC - Speaker)
	Cllr. M.P. Mbonambi (ANC - Deputy Mayor)
	Cllr. N.P. Nxumalo (IFP - Exco Member)
	Cllr. M.L. Ngidi (IFP - Exco Member)
	Cllr. E.V. Mhlongo (IFP - Councillor)
	Cllr. N.S. Ndlovu (NFP - Councillor)
	Cllr. A.T Xulu (NFP - Councillor)
	Cllr. D.J. Zubane (IFP - Councillor)
	Cllr. K.P. Ninela (IFP - Coupncillor)
	Cllr. V. Nzama (ANC - Councillor)
	Cllr. S. Nyathikazi (IFP - Councillor)
	Cllr. M. Gasela (ANC Councillor)
	Cllr. B. Luthuli (ANC - Councillor)
	Cllr. B.J. Mtshali (ANC - Councillor)
	Cllr. M. Biyela (IFP - Councillor)
	Cllr. Chili (ANC - Councillor)
	Cllr. S. Shange (ANC - Councillor)
	Cllr. J.L. Shange (ANC - Councillor)
	Cllr. L. Zondi (ANC - Councillor)
	Cllr. P. Ngcamu (ANC - Councillor)
	Cllr. K.P. Ninela (ANC - Councillor)
Grading of local authority	2
Accounting Officer	B. Ngubane (Acting) 01/07/2014 - 21/10/2014
	E.S. Mkhize (Acting) 22/10/2014 to date
Chief Finance Officer (CFO)	G.S. Majola (Acting) 01/07/2014 - 21/10/2015
	B. Ngubane 22/10/2014 - 18/12/2014
	G.S. Majola (Acting) 19/12/2014 - 26/03/2015
	S.I. Manqele (Acting) 27/03/2015 to date
Registered office	MR 711, LOT 152 Maphumulo 4470
Business address	MR 711 LOT 152 Maphumulo 4470
Postal address	Private Bag X9205 Maphumulo 4470
Bankers	First National Bank
Auditors	Auditor General (South Africa)

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 were 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 set 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, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are 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 4.

The annual financial statements set out on pages 4 to 49, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed by:

Mr. E.S. Mkhize
Acting Municipal Manager

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	2	745 202	486 776
VAT receivable	3	3 189 316	1 034 179
Prepayments	4	656 157	-
Consumer debtors	5	11 083 326	6 989 236
Other Debtors	6	53 146	-
Cash and cash equivalents	7	15 682 942	35 084 350
		31 410 089	**43 594 541**
Non-Current Assets			
Investment property	8	12 585 182	13 123 593
Property, plant and equipment	9	161 792 762	129 075 361
Intangible assets	10	503 025	397 715
Long term loan receivable		75 590	75 590
		174 956 559	**142 672 259**
Total Assets		**206 366 648**	**186 266 800**
Liabilities			
Current Liabilities			
Other financial liabilities	11	1 212 128	1 070 047
Finance lease obligation	12	5 537 975	653 572
Payables from exchange transactions	13	15 954 411	14 168 322
Unspent conditional grants and receipts	14	28 437 655	25 111 170
Other liabilities		8 767	5 496
		51 150 936	**41 008 607**
Non-Current Liabilities			
Other financial liabilities	11	3 776 177	4 981 744
Finance lease obligation	12	7 111 987	273 414
Long Service Awards Provision	38	742 279	565 805
		11 630 443	**5 820 963**
Total Liabilities		**62 781 379**	**46 829 570**
Net Assets		**143 585 269**	**139 437 230**
Accumulated surplus		143 585 269	139 437 230

* See Note 37

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment	15	968 641	864 370
Interest charged on trade and other receivables	16	1 548 627	918 711
Recoveries		-	1 836
Other income	17	261 898	339 876
Interest received - investment	18	2 193 679	2 115 920
Total revenue from exchange transactions		**4 972 845**	**4 240 713**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	8 993 084	12 267 470
Transfer revenue			
Government grants & subsidies	20	93 176 250	73 958 211
Total revenue from non-exchange transactions		**102 169 334**	**86 225 681**
Total revenue	21	**107 142 179**	**90 466 394**
Expenditure			
Employee related costs	22	(21 913 233)	(15 681 404)
Remuneration of councillors	23	(5 671 985)	(5 364 126)
Auditor's Remuneration	24	(1 088 218)	(1 045 589)
Depreciation and amortisation	25	(9 262 497)	(7 087 153)
Impairment loss/ Reversal of impairments		-	(315 835)
Finance costs	26	(2 288 943)	(1 098 657)
Debt Impairment		(1 924 600)	(621 238)
Repairs and maintenance	27	(4 062 636)	(13 144 443)
Grant funded expenditure	28	(10 562 573)	(6 337 494)
General Expenses	29	(44 219 412)	(29 872 718)
Total expenditure		**(100 994 097)**	**(80 568 657)**
Operating surplus		**6 148 082**	**9 897 737**
Loss on disposal of assets		(2 000 040)	-
Surplus for the year		**4 148 042**	**9 897 737**

* See Note 37

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**129 539 494**	**129 539 494**
Changes in net assets		
Surplus for the year	9 897 736	9 897 736
Total changes	9 897 736	9 897 736
Opening balance as previously reported	138 991 027	138 991 027
Adjustments		
Prior year adjustments	446 200	446 200
Restated* Balance at 01 July 2014 as restated*	**139 437 227**	**139 437 227**
Changes in net assets		
Surplus for the year	4 148 042	4 148 042
Total changes	4 148 042	4 148 042
Balance at 30 June 2015	**143 585 269**	**143 585 269**

* See Note 37

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Cash Receipts from Ratepayers, Government & Others		101 111 173	93 592 940
Interest income		2 193 679	2 115 920
		103 304 852	95 708 860
Payments			
Employee costs and councillors remuneration		(27 585 219)	(15 681 405)
Suppliers		(60 071 351)	(62 375 926)
Finance costs		(2 288 943)	(1 098 657)
		(89 945 513)	(79 155 988)
Net cash flows from operating activities	30	**13 359 339**	**16 552 872**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(44 087 468)	(31 463 020)
Proceeds from sale of property, plant and equipment	9	806 962	513 500
Purchase of other intangible assets	10	(266 330)	(20 504)
Proceeds from sale of other intangible assets	10	-	3 146
Increase in other receivables		(53 146)	-
Increase of staff debtors		-	(14 728)
Net cash flows from investing activities		**(43 599 982)**	**(30 981 606)**
Cash flows from financing activities			
Decrease/increase of other financial liabilities		(1 063 486)	(1 520 955)
Movement in other liabilities		179 745	379 095
Increase in Finance lease liability		11 722 976	653 572
Net cash flows from financing activities		**10 839 235**	**1 032 667**
Net increase/(decrease) in cash and cash equivalents		**(19 401 408)**	**(13 396 067)**
Cash and cash equivalents at the beginning of the year		35 084 350	48 480 417
Cash and cash equivalents at the end of the year	7	**15 682 942**	**35 084 350**

* See Note 37

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						
Rental of facilities and equipment	2 039 382	(1 048 081)	**991 301**	968 641	**(22 660)**	
Interest charged on trade and other receivables	733 184	(418 962)	**314 222**	1 548 627	**1 234 405**	A
Other income	3 238 934	(2 941 051)	**297 883**	261 898	**(35 985)**	B
Interest received - investment	2 267 777	-	**2 267 777**	2 193 679	**(74 098)**	
Total revenue from exchange transactions	**8 279 277**	**(4 408 094)**	**3 871 183**	**4 972 845**	**1 101 662**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7 107 405	1 750 546	**8 857 951**	8 993 084	**135 133**	
Transfer revenue						
Government grants & subsidies	61 091 000	9 139 000	**70 230 000**	93 176 250	**22 946 250**	C
Total revenue from non-exchange transactions	**68 198 405**	**10 889 546**	**79 087 951**	**102 169 334**	**23 081 383**	
Total revenue	**76 477 682**	**6 481 452**	**82 959 134**	**107 142 179**	**24 183 045**	
Expenditure						
Personnel	(26 210 309)	2 913 901	**(23 296 408)**	(21 913 233)	**1 383 175**	
Remuneration of councillors	(5 536 252)	116 408	**(5 419 844)**	(5 671 985)	**(252 141)**	
Administration	(1 320 000)	(400 000)	**(1 720 000)**	(1 088 218)	**631 782**	
Depreciation and amortisation	(8 310 675)	-	**(8 310 675)**	(9 262 497)	**(951 822)**	D
Finance costs	(2 825 000)	70 000	**(2 755 000)**	(2 288 943)	**466 057**	E
Bad debts written off	(1 000 000)	-	**(1 000 000)**	(1 924 600)	**(924 600)**	F
Repairs and maintenance	(5 241 150)	1 187 604	**(4 053 546)**	(4 062 636)	**(9 090)**	
General Expenses	(35 683 431)	(8 007 675)	**(43 691 106)**	(56 094 300)	**(12 403 194)**	G
Total expenditure	**(86 126 817)**	**(4 119 762)**	**(90 246 579)**	**(102 306 412)**	**(12 059 833)**	
Operating surplus	**(9 649 135)**	**2 361 690**	**(7 287 445)**	**4 835 767**	**12 123 212**	
Loss on disposal of assets and liabilities	-	-	**-**	(2 000 040)	**(2 000 040)**	H
Surplus before taxation	**(9 649 135)**	**2 361 690**	**(7 287 445)**	**2 835 727**	**10 123 172**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(9 649 135)**	**2 361 690**	**(7 287 445)**	**2 835 727**	**10 123 172**	

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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

A - At budget stage the municipality wanted to initiate an incentive for early settlement of accounts by providing relieve on interest accrued on overdue accounts however due to the municipality's financial status during the year this was not initiated.
B - Fewer service providers registered on our database as most of them they are already registered.
C - The municipality underspent on conditional grants and at budget stage it was assumed that the roll-overs would not be approved however treasury approved the roll-overs.
D - The municipality acquired assets and there was a transfer from WIP to assets due to completion of projects.
E - The variance was caused by improper budgeting for the repayment of the new plant purchased by the municipality however, going forward this has been rectified.
F - The variance is due to the fact that during budgeting we did not have the final list of debtors to be written-off as well as a council resolution approving write-off of debtors.
G - The variance is due to overspending that took place during the financial year.
H - At budget stage the municipality did not anticipate a loss on disposal of assets.

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.

Assets, liabilities, revenues and expenses were not offest, except where offsetting is either required or permitted by a Standard of GRAP.

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.

For the years ended 30 June 2014 and 30 June 2015 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

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

The 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 operation and the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We draw attention to the fact that as at 30 June 2015, the following conditions indicated the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern;

- The unspent grants liability exceeds total cash reserves available to the municipality by R12 754 713.00, 81% of the current cash reserves.
- 87% of the municipality's revenue is government grants posing a risk that there may be no other sources of funding to cover the deficit between cash reserves and the unspent grants liability.

The municipality is in a negative liquidity position in the current period. Current liabilities are R50 332 697.00 against a net cash position of R15 682 942.00

The municipality will continue to operate in the foreseeable future and intends to accomplish this by implementing austerity measures and strengthening of internal controls over expenditure. The following strategies have and are in the process of being implemented:

- Drafting of a financial improvement plan to be implemented forthwith,
- Regular review of management accounts by the accounting officer and chief financial officer to monitor the impact of the austerity measures and ensure success of the financial improvement plan,
- Council oversight of the financial improvement plan through monitoring of the municipality's performance against the plan in quarterly meetings,
- Enhancing of budgetary controls by ensuring enforcement of conformance with all legislation,
- Reduction of expenditure through strict cost monitoring and cutting of non-critical costs,
- All council deviations or acquisition approvals shall be granted subject to presentation of a feasibility assessment by the CFO detailing the availability of sufficient cash resources.

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. Uses 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 statementst. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Provisions

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

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgement of the municipality, supplemented by experienceof similar transactions and, in some, cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation of items, the obligation is estimated by weighing all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Useful lives of waste and water network and other assets

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

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

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 cashflows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.4 Investment property

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

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

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

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

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

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations:
- Land held for a currently undetermined future use (if the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

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

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

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

Item	Average useful life
Land & building	10 - 30 years
Infrastructure	
• Electricity	10 - 50 years
• Railways	30 years
• Roads and Paving	05 - 80 years
• Sanitation	10 - 55 years
Plant and machinery	10 - 15 years
Furniture and fixtures	5 - 15 years
Motor vehicles	5 - 7 years
Office equipment	5 - 10 years
Computer hardware	3 - 7 years

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

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

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

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

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

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

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

Accounting Policies

1.6 Trade & Other Receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

1.7 Intangible assets

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

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

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:

Computer software, other	5 years

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

1.8 Conditional Grants & Receipts

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

1.9 Heritage assets

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

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

1.9 Heritage assets (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

Impairment

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

Derecognition

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

1.10 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.

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

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

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

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

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

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

Accounting Policies

1.10 Financial instruments (continued)

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

Classification

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

Class	Category
Receivables	Financial asset measured at amortised cost
Cash	Fair Value

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

Class	Category
Trade payables	Financial liability measured at amortised cost
Long term loans payable	Financial liability measured at amortised cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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

1.10 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

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.

The difference between the carrying amount of a financial liability and the consideration paid is recognised in surplus or deficit.

Accounting Policies

1.10 Financial instruments (continued)

Presentation

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

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

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

Receivables from exchange transactions

Trade receivables are measured at fair value.

Payables from exchange transactions

Trade payables are measured at fair value.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.11 Leases

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

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

Finance leases - 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 on the remaining balance of the liability.

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

Operating leases - lessor

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

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

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

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

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

Accounting Policies

1.11 Leases (continued)

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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

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

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

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

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

1.13 Impairment

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

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

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

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 of its fair value less costs to sell and its value in use.

1.13 Impairment (continued)

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.

1.14 Employee benefits

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

Short-term employee benefits

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

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

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

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity 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 entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity 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 entity during a reporting period, the entity 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 entity 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.

1.15 Provisions

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.

Accounting Policies

1.15 Provisions (continued)

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.

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

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

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

Provisions are not recognised for future operating deficits.

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

1.16 Revenue from exchange transactions

Revenue is the gross infow 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.

Sale of goods

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

Rendering of services

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

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

1.16 Revenue from exchange transactions (continued)

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.

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a 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.

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

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

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

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.18 Borrowing costs

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

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

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

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

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

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):

1.22 Irregular expenditure (continued)

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

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

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

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

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

1.23 Conditional grants and receipts

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

1.24 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which are 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 an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the accounting period from 2014-07-01 to 2015-06-30.

The budget for the economic entity 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.

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 15 & 16.

Accounting Policies

1.24 Budget information (continued)

Comparative information is not required.

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

1.25 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.

Management are those persons responsible for planning, directing and controlling the activities of themunicipality, including those charged with the governance of themunicipality 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 themunicipality.

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

1.26 Events after reporting date

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

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

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

2. Receivables from exchange transactions

Trade debtors - Rentals	1 584 915	1 118 842
Employee costs in advance	10 142	142
Provision for doubtful debts	(849 855)	(632 208)
	745 202	**486 776**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 5 months past due are not considered to be impaired. At 30 June 2015, R 159 280 (2014: R 123 296) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	47 929	34 292
2 months past due	30 312	34 383
3 months past due	42 312	28 665
4 months past due	38 727	25 956

Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R 1 594 660 (2014: R 1 117 073) were impaired and provided for.

The amount of the provision was R 849 855 as of 30 June 2015 (2014: R632 168)

The ageing of these provisions is as follows:

5 to 6 months	34 868	24 562
Over 6 months	814 987	607 646

No receivables have been pledged as security.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	632 168	365 135
Provision for impairment	217 687	267 033
	849 855	**632 168**

3. VAT receivable

VAT	3 189 316	1 034 179

VAT is payable on the receipt basis. VAT is paid over to SARS only once payment is received from debtors.

4. Prepayments

SALGA Membership Fees for 2015/16	475 000	-
AON Buildings Insurance Policy	181 157	-
	656 157	**-**

5. Trade and Other Receivables from non-exchange transactions

Gross balances		
Rates	15 840 826	10 039 783

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Trade and Other Receivables from non-exchange transactions (continued)

Less: Allowance for impairment		
Rates	(4 757 500)	(3 050 547)
Net balance		
Rates	11 083 326	6 989 236
Rates		
Current (0 -30 days)	919 316	355 954
31 - 60 days	925 725	351 704
61 - 90 days	774 654	347 329
91 - 120 days	714 454	300 773
121 - > 365 days	7 749 177	5 633 211
	11 083 326	**6 988 971**
Reconciliation of allowance for impairment for Consumer Debtors		
Balance at beginning of the year	(3 050 547)	(2 660 342)
Contributions to allowance	(1 706 953)	(390 205)
	(4 757 500)	**(3 050 547)**

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2015, R 515 011 (2014: R 97 340) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	180 272	34 292
2 months past due	178 885	34 383
3 months past due	155 854	28 665

6. Other debtors

L.G. SETA	53 146	-

The municipality entered into a memorandum of agreement with Local Governmnet SETA (LGSETA) to offer internships to unemployed graduates. The above asset relates to an amount paid to learners by the municipality on behalf of LGSETA that was due from LGSETA as at year end.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	10	3 042
Bank balances	15 682 932	35 081 308
	15 682 942	**35 084 350**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	**30 June 2014**	**30 June 2013**	**30 June 2015**	**30 June 2014**	**30 June 2013**
FNB BANK - Main - 62023868998	710 019	2 872 118	-	699 468	2 408 951	-
FNB BANK - Investment Account - 710044342667	359 864	341 020	-	359 864	341 020	-
FNB BANK - Investment Account - 74105603986	1 951 829	1 839 098	-	1 951 829	1 839 098	-
FNB BANK - Investment Account - 62346755301	177 337	2 235 238	-	177 337	2 235 238	-
ABSA BANK - Current - 4056102866	860 372	836 703	-	860 372	836 703	-
ABSA BANK - Call Acc - 9159847532	71 094	68 011	-	71 094	68 011	-
Standard Bank30 day Acc - 268693404	10 000 000	-	-	10 000 000	-	-
ABSA BANK - Fixed Deposit - 2072689135	-	12 552 228	-	-	12 552 228	-
NEDBANK - Investment Account - 4053523279	58 677	56 108	-	58 677	56 108	-
NEDBANK - Investment Account - 309554919995	716 980	4 626 561	-	716 980	4 626 561	-
NEDBANK - Investment Account - 398012179996	456 534	9 757 392	-	456 534	9 757 392	-
ABSA BANK - Investment Account - 9293238154	330 776	314 800	-	330 776	314 800	-
Total	**15 693 482**	**35 499 277**	**-**	**15 682 931**	**35 036 110**	**-**

8. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	16 114 609	(3 529 427)	12 585 182	16 114 609	(2 991 016)	13 123 593

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	13 123 593	(538 411)	12 585 182

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	13 662 004	(538 411)	13 123 593

Pledged as security

Office buildings MR711, Plot 152, Maphumulo are secured over mortgage bond referred to in note 9 .

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

9. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land & Buildings	42 087 478	(5 830 098)	36 257 380	34 928 442	(4 432 215)	30 496 227
Plant and machinery	20 998 724	(1 985 925)	19 012 799	6 384 806	(2 253 888)	4 130 918
Furniture and fixtures	4 357 017	(1 667 002)	2 690 015	3 514 164	(1 401 367)	2 112 797
Motor vehicles	2 328 348	(1 576 500)	751 848	2 492 074	(1 329 827)	1 162 247
Office equipment	2 432 542	(819 743)	1 612 799	1 824 612	(594 972)	1 229 640
IT equipment	1 232 525	(531 916)	700 609	847 762	(343 066)	504 696
Infrastructure	74 381 833	(20 520 957)	53 860 876	59 703 207	(16 004 028)	43 699 179
Capital work in progress	46 906 436	-	46 906 436	45 739 657	-	45 739 657
Total	**194 724 903**	**(32 932 141)**	**161 792 762**	**155 434 724**	**(26 359 363)**	**129 075 361**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land & Buildings	30 496 227	385 193	-	6 773 844	(1 397 883)	36 257 381
Plant and machinery	4 130 918	18 967 715	(2 684 937)	-	(1 400 897)	19 012 799
Furniture and fixtures	2 112 797	1 013 884	(36 763)	-	(399 904)	2 690 014
Motor vehicles	1 162 247	-	(57 451)	-	(352 948)	751 848
Office equipment	1 229 640	706 131	(20 868)	-	(302 104)	1 612 799
IT equipment	504 696	395 297	(6 983)	-	(192 401)	700 609
Infrastructure	43 699 180	198 062	-	14 480 563	(4 516 929)	53 860 876
Capital Work in Progress	45 739 657	22 421 186	-	(21 254 407)	-	46 906 436
	129 075 362	**44 087 468**	**(2 807 002)**	**-**	**(8 563 066)**	**161 792 762**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Buildings	31 102 353	-	-	601 610	(1 207 736)	-	30 496 227
Plant and machinery	4 093 603	750 000	(404 915)	-	(307 770)	-	4 130 918
Furniture and fixtures	2 515 411	19 950	(55 681)	-	(366 883)	-	2 112 797
Motor vehicles	1 527 980	-	-	-	(365 733)	-	1 162 247
Office equipment	739 730	657 576	(2 834)	-	(164 832)	-	1 229 640
IT equipment	302 488	361 222	(50 070)	-	(108 945)	-	504 695
Infrastructure	38 890 332	-	-	8 707 485	(3 898 639)	-	43 699 178
Capital work in progress	27 049 361	29 674 272	-	(10 663 577)	-	(320 399)	45 739 657
	106 221 258	**31 463 020**	**(513 500)**	**(1 354 482)**	**(6 420 538)**	**(320 399)**	**129 075 359**

Figures in Rand	2015	2014

9. Property, plant and equipment (continued)

Pledged as security

There were no assets pledged as security for the year ended 30 June 2015.

Assets subject to finance lease (Net carrying amount)

Motor vehicles	751 848	1 162 247
Plant and Machinery	13 914 133	-

An assessment of the useful lives of property plant and equipment was conducted in the current reporting period. 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.

10. 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	1 187 072	(684 047)	503 025	920 742	(523 027)	397 715

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	397 715	266 330	(161 020)	503 025

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	508 561	20 504	(3 146)	(128 204)	397 715

11. Other financial liabilities

Designated at fair value		
Bank loan - FNB The bank loan was advanced by First National Bank for a period of 10 years commencing on 12 December 2008. An installment of R449 583.17 is payable quarterly in arrears.	4 988 305	6 051 791
Non-current liabilities		
Designated at fair value	3 776 177	4 981 744
Current liabilities		
Designated at fair value	1 212 128	1 070 047

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

12. Finance lease obligation

Minimum lease payments due		
- within one year	5 835 521	653 542
- in second to fifth year inclusive	6 124 827	252 945
	11 960 348	906 487
less: future finance charges	(1 313 069)	(70 204)
Present value of minimum lease payments	**10 647 279**	**836 283**
Present value of minimum lease payments due		
- within one year	4 923 406	650 308
- in second to fifth year inclusive	6 425 250	252 604
	11 348 656	**902 912**
Non-current liabilities	7 111 987	273 414
Current liabilities	5 537 975	653 572
	12 649 962	**926 986**

FInance leases are comprised of the following:

- Plant and machinery acquired under a finance lease agreement from ABSA bank at a total cost of R16 845 120.00 for a period of 36months. The lease acquisition dates for the equipment individually range from June 2014 to August 2014.
- 11 motor vehicles acquired under a finance lease agreement from Wesbank at a total cost of R2 761 905.71 for a period of 60 months. The lease acquisition dates for the vehicles individually range from August 2010 to July 2016.

13. Payables from exchange transactions

Accrued Payroll Costs	448 089	41 350
Accrued expense 5	621 889	-
Accrued leave pay	2 674 556	2 109 201
Deposits received	14 809	14 809
Indemnity	425	(1 200)
Other payables	57 461	391 318
Payments received in advanced - contract in process	14 110	14 110
Rental Deposits	24 045	24 044
Retention	10 574 480	8 820 367
Trade payables	1 524 547	2 754 323
	15 954 411	**14 168 322**

Figures in Rand	2015	2014

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Corridor Development	7 493 207	9 000 000
EPWP	-	1 000 000
Electrification Grant - CoGTA	1 218 518	-
Feasibility Study	39 261	39 261
Housing Sector Plan	2 543	2 543
Infrastructure Investment Plan	14 622	14 622
Integrated National Electrification Program (INEP)	4 270 292	8 139 113
Kwashushu Hotsprings	190 476	190 476
LGSETA Grant	-	97 800
MAP Project Consolidated	46 551	46 551
Municipal Infrastructure Grant (MIG)	4 521 325	-
Municipal Systems Improvement Grant (MSIG)	-	(1)
National Lottery	-	500 000
Small Town Rehabilitation Grant	8 693 734	4 112 984
Sports Grant	1 829 931	1 850 627
Titanium Mining	100 000	100 000
Urban Design Framework	17 193	17 193
	28 437 655	**25 111 170**

15. Rental of facilities and equipment

Hall hire	22 758	40 378
Rentals	945 883	823 992
	968 641	**864 370**

16. Interest charged on trade and other receivables

Interest on consumer debtors	1 449 101	837 768
Interest on rental debtors	99 526	68 977
Interest earned outstanding debtors	-	11 966
	1 548 627	**918 711**

17. Other income

Administration fees & Commissions	1 319	1 371
Sundry income	130 833	223 647
Tender document sales	129 746	114 858
	261 898	**339 876**

18. Investment revenue

Interest revenue		
Other financial assets	1 724 134	1 835 143
Bank	469 545	280 777
	2 193 679	**2 115 920**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

19. Property rates

Rates received

State	17 156 991	18 445 275
Less: Income forgone	(8 163 907)	(6 177 806)
	8 993 084	**12 267 469**

Property rates levied in terms of the Local Governments : Municipal Property Rates Act No. 6 of 2004 with effect from 1 July 2009. Randage applicable to all properties equal to 0.05. Rebates amount to 30% for all categories except for Ingonyama Trust Board which receives a 50% rebate. The current valuation roll was implemented on 1 July 2009.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Government grants and subsidies

Operating grants		
Equitable share	61 271 331	45 981 000
Electrification CoGTA	1 781 482	-
Municipal System Improvement Grant (MSIG)	934 000	890 000
Housing Sector Plan	163 934	214 110
Finance Management Grant (FMG)	1 800 000	1 650 000
Sports Grant	2 465 365	313 359
Small Town Rehabilitation Grant	119 250	-
National Lottery Grant	500 000	-
Corridor Development Grant	1 506 793	-
LGSETA Grant	216 600	21 000
CCJC Woman	-	4 050
Valuation Roll Grant	-	370 000
MPRA Ilembe Grant	-	28 869
Project Rates Implementation Grant	-	1 409
Expanded Public Works Program (EPWP)	2 000 000	-
	72 758 755	49 473 797
Capital grants		
Integrated National Electrification Program (INEP)	3 868 821	3 527 067
Municipal Infrastructure Grant (MIG)	16 548 675	20 957 346
	20 417 496	24 484 413
	93 176 251	**73 958 210**

Municipal Systems Improvment Grant (MSIG)

Balance unspent at beginning of year	(1)	102 167
Current-year receipts	934 000	800 000
Conditions met - transferred to revenue	(934 000)	(902 168)
	1	**(1)**

Housing Sector Plan

Balance unspent at beginning of year	2 543	2 543
Current-year receipts	163 934	214 110
Conditions met - transferred to revenue	(163 934)	(214 110)
	2 543	**2 543**

The unspent amount remains a liability (see note 14).

Sports Grant

Balance unspent at beginning of year	1 850 627	963 986
Current-year receipts	2 625 000	1 200 000
Conditions met - transferred to revenue	(2 645 696)	(313 359)
	1 829 931	**1 850 627**

The unspent amount remains a liability (see note 14).

Small Town Rehabilitation Grant

Balance unspent at beginning of year	4 112 984	4 112 984
Current-year receipts	4 700 000	-
Conditions met - transferred to revenue	(119 250)	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Government grants and subsidies (continued)

	8 693 734	**4 112 984**

The unspent amount remains a liability (see note 14).

Lotto Grant

Balance unspent at beginning of year	500 000	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(500 000)	-
	-	**500 000**

Corridor Development Grant

Balance unspent at beginning of year	9 000 000	9 000 000
Conditions met - transferred to revenue	(1 506 793)	-
	7 493 207	**9 000 000**

The unspent amount remains a liability (see note 14).

LGSETA Grant

Balance unspent at beginning of year	97 800	-
Current-year receipts	118 800	118 800
Conditions met - transferred to revenue	(216 600)	(21 000)
	-	**97 800**

Expanded Public Works Program (EPWP)

Balance unspent at beginning of year	1 000 000	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(2 000 000)	-
	-	**1 000 000**

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	640 346
Current-year receipts	21 070 000	20 317 000
Conditions met - transferred to revenue	(16 548 675)	(20 957 346)
	4 521 325	**-**

The unspent amount remains a liability (see note 14).

Feasibility Study

Balance unspent at beginning of year	39 261	39 261

The unspent amount remains a liability (see note 14).

Titanium Mining

Balance unspent at beginning of year	100 000	100 000

The unspent amount remains a liability (see note 14).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Government grants and subsidies (continued)

Urban Design Framework

Balance unspent at beginning of year	17 193	17 193

The unspent amount remains a liability (see note 14).

Kwashushu Hotsprings

Balance unspent at beginning of year	190 476	190 476

The unspent amount remains a liability (see note 14).

Infrastructure Investment Plan

Balance unspent at beginning of year	14 622	14 622

The unspent amount remains a liability (see note 14).

Integrated National Electrification Program (INEP)

Balance unspent at beginning of year	8 139 113	4 666 180
Current-year receipts	-	7 000 000
Conditions met - transferred to revenue	(3 868 821)	(3 527 067)
	4 270 292	**8 139 113**

The unspent amount remains a liability (see note 14).

MAP Project Consolidated

Balance unspent at beginning of year	46 551	46 551

The unspent amount remains a liability (see note 14).

Electrification - CoGTA

Current-year receipts	3 000 000	-
Conditions met - transferred to revenue	(1 781 482)	-
	1 218 518	**-**

The unspent amount remains a liability (see note 14).

Finance Management Grant

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

The unspent amount remains a liability (see note 14).

Figures in Rand	2015	2014

21. Revenue

Rental of facilities and equipment	968 641	864 370
Interest charged on trade and other receivables	1 548 627	918 711
Recoveries	-	1 836
Other income - (rollup)	261 898	339 876
Interest received - investment	2 193 679	2 115 920
Property rates	8 993 084	12 267 470
Government grants & subsidies	93 176 250	73 958 211
	107 142 179	**90 466 394**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rental of facilities and equipment	968 641	864 370
Interest charged on trade and other receivables	1 548 627	918 711
Recoveries	-	1 836
Other income - (rollup)	261 898	339 876
Interest received - investment	2 193 679	2 115 920
	4 972 845	**4 240 713**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	8 993 084	12 267 470
Transfer revenue		
Government grants & subsidies	93 176 250	73 958 211
	102 169 334	**86 225 681**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Employee related costs

Basic	16 704 544	12 482 278
Bonus	621 889	-
Medical aid - company contributions	898 286	649 543
UIF	123 311	90 974
SDL	202 443	149 854
Defined contribution plans	1 926 443	1 372 725
Long-service awards	176 474	-
Car allowance	1 164 929	846 134
Housing benefits and allowances	57 228	51 012
Cellphone Allowance	30 805	27 840
Group Life Assurance	6 880	11 045
	21 913 232	**15 681 405**

Remuneration of municipal manager

Annual Remuneration	784 140	-
Car Allowance	168 266	-
Acting Allowance	63 866	202 594
Contributions to UIF, Medical and Pension Funds	10 432	-
	1 026 704	**202 594**

Prior year figures relate to B. Ngubane who was acting municipal manager up to 30 June 2014. Current year amounts relate to B. Ngubane's acting allowances from 1 July 2014 to 20 October 2014 and E.S. Mkhize's package from his appointment as acting municipal manager on 21 October to 30 June 2015.

Remuneration of chief finance officer

Annual Remuneration	751 708	703 913
Car Allowance	262 179	245 509
Acting Allowance	48 551	-
Contributions to UIF, Medical and Pension Funds	141 718	75 624
	1 204 156	**1 025 046**

B. Ngubane was appointed acting municipal manager on 1 July 2013. Current year remuneration above relates to his package in the office of the CFO. Acting allowane relates to G.S. Majola and S.I. Manqele who were acting in the position of CFO.

Corporate and human resources (corporate services)

Annual Remuneration	751 708	565 976
Car Allowance	197 508	184 950
Contributions to UIF, Medical and Pension Funds	109 768	89 199
Other	-	7 543
	1 058 984	**847 668**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

23. Remuneration of councillors

Mayor	504 573	486 751
Deputy Mayor	222 012	219 525
Mayoral Committee Members	416 273	438 551
Speaker	222 012	219 525
Councillors	3 724 313	2 464 858
Skills Development Levy	17 246	49 720
Cellphone Allowance	110 600	338 568
Travel Allowance	454 956	1 146 628
	5 671 985	**5 364 126**

24. Auditors' remuneration

Auditors' remuneration	1 088 218	1 045 589

25. Depreciation and amortisation

Property, plant and equipment	8 563 065	6 420 538
Investment property	538 411	538 411
Intangible assets	161 021	128 204
	9 262 497	**7 087 153**

26. Finance costs

Other interest paid	2 288 943	1 098 657

27. Repairs and Maintenance

Sportsfields	25 755	1 668 095
Vehicles	365 224	454 589
Roads	207 700	8 164 926
Furniture and Equipment	38 020	6 345
Computer equipment	5 998	9 938
Buildings	3 419 938	2 840 550
	4 062 635	**13 144 443**

28. Grant funded expenditure

CCJC Woman	-	4 050
Electrification CoGTA	1 705 882	-
Expanded Public Works Program (EPWP)	1 940 205	-
Finance Management Grant (FMG)	1 723 464	1 650 000
Housing Sector Plan	201 434	187 816
Integrated National Electrification Program (INEP)	3 497 300	3 116 771
LG SETA Grant	216 600	21 000
MPRA Ilembe	-	12 891
Municipal Systems Improvement Grant (MSIG)	556 902	890 000
National Lottery	438 001	-
Project Rates Implementation	-	1 409
Public Participation Grant	-	514
Small Town Rehabilitation Grant	119 250	2
Sports and Recreation Grant	163 535	83 042
Valuation Roll Grant	-	370 000
	10 562 573	**6 337 495**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. Grant funded expenditure (continued)

29. General expenses

	2015	2014
Advertising	395 710	489 072
Audit Committee	127 070	78 568
Bank charges	41 405	12 819
Billing charges	73 109	1 061
Electrification	2 843 451	-
Cleaning	1 808 967	1 711 268
Community development and training	5 485 446	3 945 319
Conferences and seminars	921 744	626 862
Consulting and professional fees	5 138 742	4 160 962
Consumables	3 420	-
Disaster Management Plan Review	203 060	-
Electricity	794 778	684 759
Entertainment	806 645	515 047
Free Basic Services	272 513	224 089
Fuel and oil	833 265	634 199
Hire	1 677 304	736 462
IDP Review	1 522 488	463 904
Insurance	240 962	599 690
Internal Audit	1 413 280	892 898
LED Projects	394 483	-
Leave Encashment	1 180 918	1 327 224
Licences	126 269	94 170
Magazines, books and periodicals	1 345	-
Medical expenses	13 413	26 314
Other expenses	1 775 704	1 012 261
Postage and courier	2 956	2 105
Printing and stationery	365 403	277 943
Promotions and sponsorships	3 750	7 000
Security (Guarding of municipal property)	3 738 558	3 223 956
Staff welfare	172 000	-
Subscriptions and membership fees	15 785	455 093
Telephone and fax	1 204 592	635 965
Tourism development	649 089	316 420
Training	2 413 190	3 127 909
Travel - local	7 263 791	3 539 231
Uniforms	255 304	50 149
Valuation Roll	39 500	-
	44 219 409	**29 872 719**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. Cash generated from operations

Surplus	4 148 042	9 897 736
Adjustments for:		
Depreciation and amortisation	9 262 497	7 087 153
Loss on sale of assets and liabilities	2 000 040	-
Impairment deficit	-	315 835
Debt impairment	1 924 600	621 238
Changes in working capital:		
Receivables from exchange transactions	(258 427)	(1 009 805)
Consumer debtors	(6 018 690)	(5 075 073)
Prepayments	(656 157)	-
Payables from exchange transactions	1 786 087	563 219
VAT	(2 155 137)	(760 131)
Unspent conditional grants and receipts	3 326 484	4 912 700
	13 359 339	**16 552 872**

31. Commitments

Authorised capital expenditure

Approved and contracted for		
• Property, plant and equipment	48 268 594	66 378 845
• Biological assets that form part of an agricultural activity	-	1 245 574
• Intangible assets	105 680	-
	48 374 274	**67 624 419**

Approved but not yet contracted for		
• Property, plant and equipment	9 834 037	11 928 965
• Biological assets that form part of an agricultural activity	-	840 270
	9 834 037	**12 769 235**

Total capital commitments		
Already contracted for but not provided for	48 374 274	67 624 419
Not yet contracted for and authorised by accounting officer	9 834 037	12 769 235
	58 208 311	**80 393 654**

All commitments will be funded from government grants.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	211 258	60 804
- in second to fifth year inclusive	369 701	-
	580 959	**60 804**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

32. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	130 946	109 705

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

33. Irregular expenditure

Opening balance	44 251 205	42 190 275
Add: Irregular Expenditure - current year	21 620 272	2 553 401
Add: Irregular Expenditure incurred in current year but identified in prior year	2 073 121	-
Less: Amounts approved by council to be condoned by National Treasury	-	(492 471)
	67 944 598	**44 251 205**

Irregular expediture in current year all arose from 101 incidents of non compliance within the SCM department in the following proportions:
Operating Expenditure R16 860 767.01
Capital Expenditure R6 832 626.36
All the irregular expenditure incurred in current year is under investigation.

34. Unauthorised expenditure

Capital Expenditure	3 690 800	-
Operating Expenditure	8 722 126	-
	12 412 926	**-**

35. 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 accounting officer and includes a note to the annual financial statements.

Advertising and vehicle repairs and maintenance services amounting to R857 648 were procured during the financial year under review and the process followed in procuring those goods 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 officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

36. Related parties

Related party transactions

Interest charged to related parties		
Maphumulo Independent Electoral Council (IEC)	-	4 122
Rental Income from related parties		
Maphumulo Independent Electoral Council (IEC)	49 092	50 577

37. Prior period errors

During the year the following errors were identified in the prior year Annual Financial statements:

- An understatement of R350 024 was corrected on trade debtors
- A variance between consumer debtors age analysis and the general ledger of R260.00 was written off
- Interest accrual misallocations of R45 198 were corrected.

- The short and long term portion of the finance lease liability was found to be overstated by R53 993.43 and corrected.
- Payables from exchange transactions were overstated by R2 128 and adjusted accordingly.
- Credit balances in debtors of R2 684.00 were reclassified to other liabilities. While a further adjustment of R900 was passed to correct a mistatement in other liabilities.
- Interest of R918 711 charged on trade and other receiviables was reclassified and disclosed separately.
- A misstatement of grant revenue was corrected by R15 979.00

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

37. Prior period errors (continued)

- Bad debts which were overstated by R67 958 were adjusted.
- A Grant funded expenditure overstatement of R19 177 was adjusted.
- An insurance expense mistatement was corrected by R3 197.

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

			1	-
Statement of financial position	**Prior period**	**Adjustments**	**Reclassifications**	**Restated**
Receivables from exchange transactions	136 752	350 024	-	486 776
Receivables from non-exchange transactions	6 988 971	265	-	6 989 236
Cash and cash equivalents	35 039 152	45 198	-	35 084 350
Finance lease obligation - current portion	(717 973)	64 401	-	(653 572)
Payables from exchange transactions	(14 170 540)	2 128	-	(14 168 322)
Other liabilities	-	(2 812)	(2 684)	(5 496)
Finance lease obligation - non current portion	(263 006)	(10 408)	-	(273 414)
Long Service Bonus Provision	-	(565 805)	-	(565 805)
	27 013 356	**(117 009)**	**(2 684)**	**26 893 753**

			1	-
Statement of financial performance	**Prior period**	**Adjustments**	**Reclassifications**	**Restated**
Interest received - investment	(2 995 211)	(39 420)	916 027	(2 115 920)
Interest charged on trade and other receivables	-	-	(918 711)	(918 711)
Government grants and subsidies	(73 974 189)	(15 979)	-	(73 958 211)
Finance cost	1 152 650	(53 933)	-	1 098 657
Debt impairment	689 197	(67 958)	-	621 238
Grant funded expenditure	6 356 671	(19 177)	-	6 337 494
General expenses	29 869 521	3 197	-	29 872 718
	(38 901 361)	**(193 270)**	**(2 684)**	**(39 062 735)**

38. Employee benefit obligations

Multi Employer Retirement Fund

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.

(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.

(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

38. Employee benefit obligations (continued)

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer. The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions.

Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

38. Employee benefit obligations (continued)

Defined benefit plan

Retirement Fund

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R 251,2 (31 March 2011: shortfall of R 382,3) million, with a funding level of 90,6% (31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (29,00%) should be sufficient to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,85% is payable by the local authority. This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the sucharge be increased to 17.5% and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 34.22% with effect from 1 July 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

Superannuation Fund

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R 270,0 (31 March 2011: shortfall of R 549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2013: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% (31 March 2013 7,0%)of pensionable salaries. It was expected that the deficit will be fully funded by 2016.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the sucharge be increased to 17,5% and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund will merge with the Retirement Fund in the near future.

38. Employee benefit obligations (continued)

Post retirement gratuity plan

A long-service bonus is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2015 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 by ARCH Actuarial Consulting a member of the Actuarial Society of South Africa.

A summary of the actuarial valuation results is as follows:

Key financial assumptions used for the purposes of the actuarial valuation	
Discount Rate	8,42%
General Salary Inflation (long term)	7,30%
Net effective Discount Rate	1,05%

Unfunded Accrued Liability	**30 June 2015**	**30 June 2014**
Total value of liabilities	742 279	565 805

Current service and interest costs	**30 June 2015**
Current service cost	101 685
Interest cost	49 083
	150 768

The Current-service cost reflects the additional liability that is expected to accrue in respect of in-service members' service over the corresponding year.

The interest cost represents the accrual of interest on the accrued liability allowing for benefit vestings, over the corresponding year. This arises because all future Long Service Award benefits are one year closer to payment.

Defined contribution plan

Municipal Councillors Pension Fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011. The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13.75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future. As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

Provident Fund

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R 1 288,3 (31 March 2011: R 1056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

None of the above mentioned plans are State Plans.

Notes to the Annual Financial Statements

39. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	746 466	746 466
Consumer debtors	-	11 083 326	11 083 326
Cash and cash equivalents	15 682 942	-	15 682 942
	15 682 942	**11 829 792**	**27 512 734**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	4 988 305	4 988 305
Trade and other payables from exchange transactions	14 985 579	14 985 579
Finance Lease Liability	12 649 962	12 649 962
	32 623 846	**32 623 846**

40. Contingencies

Case 1
Litigation is in the process against the municipality relating to a dispute with the former acting Municipal Manager, Mr. B.R. Ngubane. Mr. B.R. Ngubane alleges that the municipality has dismissed him unfairly on allegations of falsifying qualifications he submitted when applying for the Municipal Manager position. The estimated damages the municipality may pay in the event that the ruling is in favour of Mr Ngubane is R100 000. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims.

Case 2
The municipality is also being sued by Dass & Associated Attorneys for payment of professional for services allegedly rendered by Dass & Associates. The municipality is contesting this case because they did not appoint Dass & Associates for any services and there was no mandate between the parties to that effect. The estimated cost the municipality my incur in the event they lose this case is R348 668.60. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, the case should be resolved within the next nine months.

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims.

Case 3
The former Accounting officer Mr. V.W. Mhlongo alleges to have been unfairly dismissed by not being notified by the municipality that his contract as the MM is not going to be renewed. The commissioner at CCMA ruled in his favour and the matter was referred to Ngidi and company attorneys for the review of this decision. Issue was escalated to labor court and the matter has been heard however judgement is still pending. Issue may continue for another 1.5years. Estimated liability is R100 000.00.

41. Risk management

Liquidity risk

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. Risk management (continued)

Credit risk

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

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

SALGA Current year subscription / fee	450 000	450 000

Audit fees

Current year subscription / fee	1 088 218	1 045 589

PAYE and UIF

Amount paid - current year	4 158 796	3 389 551

Pension and Medical Aid Deductions

Amount paid - current year	915 690	1 181 645

VAT

VAT receivable	3 189 316	1 034 179

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

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

Appendix A

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2014 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2015 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock								
First National Bank Loan			6 051 791	-	1 063 486	4 988 305	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			6 051 791	**-**	**1 063 486**	**4 988 305**	**-**	**-**
Structured loans								
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Funding facility								
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Development Bank of South Africa								
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-

Appendix A

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2014 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2015 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Bonds								
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Other loans								
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Lease liability								
ABSA Finance Lease			16 845 120	-	2 930 987	13 914 133	13 914 133	-
Wesbank Finance Lease			2 762 978	-	2 011 130	751 848	751 848	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			19 608 098	**-**	**4 942 117**	**14 665 981**	**14 665 981**	**-**
Annuity loans								
			-	-	-	-	-	-
			-	-	-	-	-	-

Appendix A

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2014 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2015 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Government loans								
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	**-**	**-**	**-**	**-**	**-**
Total external loans								
Loan Stock			6 051 791	-	1 063 486	4 988 305	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			-	-	-	-	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			19 608 098	-	4 942 117	14 665 981	14 665 981	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			25 659 889	**-**	**6 005 603**	**19 654 286**	**14 665 981**	**-**