Kgatelopele Local Municipality
(Registration number NC086)
Financial statements
for the year ended 30 June 2015

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Municipal function as set out in the Constituition. (Act no. 117 of 1996)
Full Time Mayor	KG Kgoronyane
Ward Councillors	GP McCarthy
	YJ Kerneels
Councillors	AS Adams
	AJ Visser
	OH Sehularo
	J Baatjie
	GU Lottering
	P Mgcera
Grading of local authority	Category B
	PO Box 43
Registrered Office	Danielskuil
	8405
Telephone Number	053 384 8600
Registered address	PO Box 43
	Danielskuil
	8405
Accounting Officer	AM Motswana
Chief Financial Officer (CFO)	PJ Booysen
Bankers	First National Bank
Level of assurance	These financial statements have been audited in compliance with the applicable requirements of the Municipal Finance Management Act, 56 of 2003.

Index

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

Index	Page
Accounting Officer's Responsibilities and Approval	3
Accounting Officer's Report	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Appropriation Statement	11 - 13
Accounting Policies	14 - 46
Notes to the Financial Statements	47 - 81
Appendixes:	
Appendix A: Schedule of External loans	82

Abbreviations

IDP	Integrated Development Plan
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
WIP	Work in progress

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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality at the end of the financial year.The external auditors are engaged to express an independent opinion on the finacial statements and will be given unrestricted access to all finacial records.

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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.It should be noted that the municipality is experiencing financial difficulties, and can be seen as being grant dependant.The municipality's debt recovery is below the acceptable norm which is reflecteced in the statement of financial position of the municipality.

Arson Incident

During the 2014/15 financial year in the months of Febraury/ April 2015, the municipality experiance community unrest. The unrest lead to the burning of the municipal offices, and had a negative impact on the operations of the municipality as services had to be provided from alternative venues. The financial impact of the unrest placed additional strain on the municipality. Key assts and records of the municipality were destroyed by fire. The incidents of community unrest was reoccurring as it happend in the past year 2013/14, whereby the MEC for COGHSTA commissioned an investigation resulting in recommendations which were approved and implemented, and reports submitted to council.And for some time there was calmness in the community,until Mid-February 2015. The continous impact of community unrest is taking its tall on key aspects of the municipality shuch as. Human capital, it affects staff moral and productibity. Major capital impact as assets destroyed must be replaced.Given the reoccurrns of burning of assets/ building we are deemed to be a high risk by the insurer, resulting in high premium payments.

The financial statements set out within this document, which have been prepared on the going concern basis, were approved by council on 28 August 2015 and report was singed off by the accounting officer :

Accounting Officer
AM MOTSWANA

Daniëlskuil

28 August 2015

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

1. Review of activities

Main business and operations

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

Net deficit of the municipality was R 9 769 422 (2014: deficit R 28 645 894).

2. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The ability of the municipality to continue as a going concern is dependent on a number of significant factors which are discussed in note 44.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The accounting officer has no interest in any contracts

5. Accounting policies

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

6. Accounting Officer

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

Name	Nationality
AM Motswana	RSA

7. Auditors

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

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	8	545 743	464 457
Receivables from non-exchange transactions	9	6 219 620	5 061 842
VAT receivable	10	3 930 606	4 313 454
Receivables from exchange transactions	11	2 972 791	1 626 677
Cash and cash equivalents	12	314 060	1 127 272
		13 982 820	**12 593 702**
Non-Current Assets			
Investment property	4	6 192 220	6 192 220
Property, plant and equipment	5	189 928 997	193 586 343
Intangible assets	6	53 070	22 350
Heritage assets		260 000	260 000
		196 434 287	**200 060 913**
Total Assets		**210 417 107**	**212 654 615**
Liabilities			
Current Liabilities			
Other financial liabilities	14	1 228 589	1 163 819
Payables from exchange transactions	16	19 682 506	10 630 326
Taxes and transfers payable (non-exchange)		-	-
VAT payable		-	-
Consumer deposits	17	1 322 146	319 191
Employee benefit obligation	7	145 000	131 000
Unspent conditional grants and receipts	13	669 712	1 880 356
Provisions	15	109 717	83 991
		23 157 670	**14 208 683**
Non-Current Liabilities			
Other financial liabilities	14	637 172	1 870 511
Employee benefit obligation	7	674 000	916 000
Provisions	15	5 283 086	5 224 821
		6 594 258	**8 011 332**
Total Liabilities		**29 751 928**	**22 220 015**
Net Assets		**180 665 179**	**190 434 600**
Reserves			
Revaluation reserve		51 060 065	51 060 065
Accumulated surplus		129 605 114	139 374 535
		180 665 179	190 434 600
Total Net Assets		**180 665 179**	**190 434 600**

* See Note 2 & 41

Kgatelopele Local Municipality
Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	31 941 140	28 527 623
Interest received (trading)		168 262	799 205
Fees earned		716 821	909 439
Commissions received		806 711	210 160
Rental income		235 290	321 274
Other income	19	420 816	740 293
Interest received - investment	20	102 381	336 326
Total revenue from exchange transactions		**34 391 421**	**31 844 320**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	9 194 310	8 386 828
Transfer revenue			
Government grants & subsidies	22	29 456 644	34 012 081
Public contributions and donations	23	1 458 483	878 227
Fines, Penalties and Forfeits		7 949	24 232
Total revenue from non-exchange transactions		**40 117 386**	**43 301 368**
Total revenue	24	**74 508 807**	**75 145 688**
Expenditure			
Employee related costs	26	(18 246 135)	(14 275 314)
Remuneration of councillors	27	(2 191 997)	(2 121 944)
Depreciation and amortisation	29	(12 858 223)	(18 084 823)
Impairment loss/ Reversal of impairments	30	(10 321 156)	(27 301 104)
Finance costs	31	(210 249)	(225 231)
Debt Impairment	28	-	(4 022 020)
Repairs and maintenance		(1 517 811)	(1 442 463)
Bulk purchases	35	(13 716 464)	(12 755 592)
Contracted services	33	(3 190 626)	(3 408 647)
Transfers and Subsidies	34	(7 698 868)	(12 190 645)
General Expenses	25	(14 326 801)	(8 112 575)
Total expenditure		**(84 278 330)**	**(103 940 358)**
Operating deficit		**(9 769 523)**	**(28 794 670)**
Gain on disposal of assets and liabilities		100	-
Fair value adjustments		-	148 777
		100	**148 777**
Deficit for the year		**(9 769 423)**	**(28 645 893)**

* See Note 2 & 41

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	161 572 646	161 572 646
Adjustments			
Correction of errors	-	6 447 783	6 447 783
Change in accounting policy	51 060 065	-	51 060 065
Balance at 01 July 2013 as restated*	**51 060 065**	**168 020 429**	**219 080 494**
Changes in net assets			
Surplus for the year	-	(28 645 894)	(28 645 894)
Total changes	-	(28 645 894)	(28 645 894)
Opening balance as previously reported	51 060 065	164 972 879	216 032 944
Adjustments			
Correction of errors	-	6 447 783	6 447 783
Prior year adjustments	-	(32 046 126)	(32 046 126)
Restated* Balance at 01 July 2014 as restated*	**51 060 065**	**139 374 536**	**190 434 601**
Changes in net assets			
Surplus for the year	-	(9 769 422)	(9 769 422)
Total changes	-	(9 769 422)	(9 769 422)
Balance at 30 June 2015	**51 060 065**	**129 605 114**	**180 665 179**
Note(s)			

* See Note 2 & 41

Kgatelopele Local Municipality

Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Taxation		-	1 024 944
Sale of goods and services		29 110 179	27 730 491
Grants		24 503 376	20 350 075
Interest income		102 381	1 135 530
Other cash item		1 123 437	-
		54 839 373	50 241 040
Payments			
Employee costs		(20 666 132)	(15 350 257)
Suppliers		(23 171 229)	(25 186 313)
Finance costs		(210 249)	(225 231)
		(44 047 610)	(40 761 801)
Net cash flows from operating activities	36	**10 791 763**	**9 479 239**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(9 474 871)	(10 635 269)
Proceeds from sale of property, plant and equipment	5	100	-
Purchase of other intangible assets	6	(256 552)	-
Non-cash increase assets		(705 084)	(6 318 256)
Net cash flows from investing activities		**(10 436 407)**	**(16 953 525)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1 168 568)	(1 094 249)
Net cash flows from financing activities		**(1 168 568)**	**(1 094 249)**
Net increase/(decrease) in cash and cash equivalents		**(813 212)**	**(8 568 535)**
Cash and cash equivalents at the beginning of the year		1 127 272	9 695 807
Cash and cash equivalents at the end of the year	12	**314 060**	**1 127 272**

* See Note 2 & 41

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	35 786 000	(2 616 000)	**33 170 000**	31 941 140	**(1 228 860)**	
Interest received (trading)	90 246	-	**90 246**	168 262	**78 016**	
Fees earned	12 000	-	**12 000**	716 821	**704 821**	
Commissions received	405 000	(225 000)	**180 000**	806 711	**626 711**	
Rental income	239 718	-	**239 718**	235 290	**(4 428)**	
Other income - (rollup)	7 165 036	(3 023 000)	**4 142 036**	420 816	**(3 721 220)**	
Interest received - investment	27 000	199 000	**226 000**	102 381	**(123 619)**	
Total revenue from exchange transactions	**43 725 000**	**(5 665 000)**	**38 060 000**	**34 391 421**	**(3 668 579)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	9 550 000	-	**9 550 000**	9 194 310	**(355 690)**	
Government grants & subsidies	20 836 000	(1 415 000)	**19 421 000**	29 456 644	**10 035 644**	
Transfer revenue						
Public contributions and donations	-	-	**-**	1 458 483	**1 458 483**	
Fines, Penalties and Forfeits	-	-	**-**	7 949	**7 949**	
Total revenue from non-exchange transactions	**30 386 000**	**(1 415 000)**	**28 971 000**	**40 117 386**	**11 146 386**	
Total revenue	**74 111 000**	**(7 080 000)**	**67 031 000**	**74 508 807**	**7 477 807**	
Expenditure						
Personnel	(19 681 000)	258 000	**(19 423 000)**	(18 246 135)	**1 176 865**	
Remuneration of councillors	(2 639 000)	343 000	**(2 296 000)**	(2 191 997)	**104 003**	
Depreciation and amortisation	(5 600 000)	1 000 000	**(4 600 000)**	15 233 142	**19 833 142**	
Impairment loss/ Reversal of impairments	(5 909 000)	3 300 000	**(2 609 000)**	(10 321 156)	**(7 712 156)**	
Finance costs	(584 000)	484 000	**(100 000)**	(210 249)	**(110 249)**	
Repairs and maintenance	(3 669 000)	1 776 000	**(1 893 000)**	(1 517 811)	**375 189**	
Bulk purchases	(14 868 000)	-	**(14 868 000)**	(13 716 464)	**1 151 536**	
Contracted Services	(4 307 000)	699 000	**(3 608 000)**	(3 190 626)	**417 374**	
Transfers and Subsidies	(7 311 000)	4 311 000	**(3 000 000)**	(7 698 868)	**(4 698 868)**	
General Expenses	(9 542 000)	(5 386 000)	**(14 928 000)**	(42 418 167)	**(27 490 167)**	379
Total expenditure	**(74 110 000)**	**6 785 000**	**(67 325 000)**	**(84 278 331)**	**(16 953 331)**	
Operating deficit	**1 000**	**(295 000)**	**(294 000)**	**(9 769 524)**	**(9 475 524)**	
Gain on disposal of assets and liabilities	-	-	**-**	100	**100**	
Deficit before taxation	**1 000**	**(295 000)**	**(294 000)**	**(9 769 424)**	**(9 475 424)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 000**	**(295 000)**	**(294 000)**	**(9 769 424)**	**(9 475 424)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	545 743	**545 743**	
Receivables from non-exchange transactions	-	-	**-**	6 219 620	**6 219 620**	
VAT receivable	-	-	**-**	3 930 606	**3 930 606**	
Consumer debtors	37 340 000	-	**37 340 000**	2 972 791	**(34 367 209)**	
Cash and cash equivalents	-	-	**-**	314 060	**314 060**	
	37 340 000	**-**	**37 340 000**	**13 982 820**	**(23 357 180)**	
Non-Current Assets						
Investment property	-	-	**-**	6 192 220	**6 192 220**	
Property, plant and equipment	101 597 000	-	**101 597 000**	189 928 999	**88 331 999**	
Intangible assets	-	-	**-**	53 070	**53 070**	
Heritage assets	-	-	**-**	260 000	**260 000**	
	101 597 000	**-**	**101 597 000**	**196 434 289**	**94 837 289**	
Total Assets	**138 937 000**	**-**	**138 937 000**	**210 417 109**	**71 480 109**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	**-**	1 228 589	**1 228 589**	
Payables from exchange transactions	-	-	**-**	19 682 509	**19 682 509**	
Consumer deposits	-	-	**-**	1 322 146	**1 322 146**	
Employee benefit obligation	-	-	**-**	145 000	**145 000**	
Unspent conditional grants and receipts	-	-	**-**	669 712	**669 712**	
Provisions	-	-	**-**	109 717	**109 717**	
	-	**-**	**-**	**23 157 673**	**23 157 673**	
Non-Current Liabilities						
Other financial liabilities	-	-	**-**	637 172	**637 172**	
Employee benefit obligation	-	-	**-**	674 000	**674 000**	
Provisions	-	-	**-**	5 283 086	**5 283 086**	
	-	**-**	**-**	**6 594 258**	**6 594 258**	
Total Liabilities	**-**	**-**	**-**	**29 751 931**	**29 751 931**	
Net Assets	**138 937 000**	**-**	**138 937 000**	**180 665 178**	**41 728 178**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	**-**	51 060 065	**51 060 065**	
Accumulated surplus	138 937 000	-	**138 937 000**	129 605 113	**(9 331 887)**	
Total Net Assets	**138 937 000**	**-**	**138 937 000**	**180 665 178**	**41 728 178**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	9 550 000	-	9 550 000	-		9 550 000	9 194 310		(355 690)	96 %	96 %
Service charges	35 786 000	(2 616 000)	33 170 000	-		33 170 000	31 941 140		(1 228 860)	96 %	89 %
Investment revenue	27 000	199 000	226 000	-		226 000	102 381		(123 619)	45 %	379 %
Transfers recognised - operational	20 836 000	-	20 836 000	(1 059 458)		19 776 542	19 225 542		(551 000)	97 %	92 %
Other own revenue	7 911 000	(4 663 000)	3 248 000	-		3 248 000	2 355 949		(892 051)	73 %	30 %
Total revenue (excluding capital transfers and contributions)	**74 110 000**	**(7 080 000)**	**67 030 000**	**(1 059 458)**		**65 970 542**	**62 819 322**		**(3 151 220)**	**95 %**	**85 %**
Employee costs	(19 681 000)	258 000	(19 423 000)	-	-	(19 423 000)	(18 246 135)	-	1 176 865	94 %	93 %
Remuneration of councillors	(2 639 000)	343 000	(2 296 000)	-	-	(2 296 000)	(2 191 997)	-	104 003	95 %	83 %
Debt impairment	(5 600 000)	3 300 000	(2 300 000)			(2 300 000)	-	-	2 300 000	- %	- %
Depreciation and asset impairment	(5 909 000)	-	(5 909 000)			(5 909 000)	(23 179 379)	-	(17 270 379)	392 %	392 %
Finance charges	(584 000)	484 000	(100 000)	-	-	(100 000)	(210 249)	-	(110 249)	210 %	36 %
Materials and bulk purchases	(18 537 000)	1 776 000	(16 761 000)	-	-	(16 761 000)	(13 716 464)	-	3 044 536	82 %	74 %
Transfers and grants	(7 311 000)	4 311 000	(3 000 000)	(3 687 000)	5 000	(6 682 000)	(7 698 868)	-	(1 016 868)	115 %	105 %
Other expenditure	(13 849 000)	(3 687 000)	(17 536 000)	-	-	(17 536 000)	(19 035 239)	-	(1 499 239)	109 %	137 %
Total expenditure	**(74 110 000)**	**6 785 000**	**(67 325 000)**	**(3 687 000)**	**5 000**	**(71 007 000)**	**(84 278 331)**	**-**	**(13 271 331)**	**119 %**	**114 %**
Surplus/(Deficit)	**-**	**(295 000)**	**(295 000)**	**(4 746 458)**		**(5 036 458)**	**(21 459 009)**		**(16 422 551)**	**426 %**	**DIV/0 %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	7 843 000	1 491 000	9 334 000	-		9 334 000	10 231 102		897 102	110 %	130 %
Contributions recognised - capital and contributed assets	432 000	(432 000)	-	-		-	1 458 483		1 458 483	DIV/0 %	338 %
Surplus (Deficit) after capital transfers and contributions	**8 275 000**	**764 000**	**9 039 000**	**(4 746 458)**		**4 297 542**	**(9 769 424)**		**(14 066 966)**	**(227)%**	**(118)%**
Surplus/(Deficit) for the year	**8 275 000**	**764 000**	**9 039 000**	**(4 746 458)**		**4 297 542**	**(9 769 424)**		**(14 066 966)**	**(227)%**	**(118)%**

Capital expenditure and funds sources

Total capital expenditure	-	-	-	-		-	1 352 162		1 352 162	DIV/0 %	DIV/0 %

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	13 372 000	(18 855 000)	(5 483 000)	-		(5 483 000)	10 791 763		16 274 763	(197)%	81 %
Net cash from (used) investing	(7 624 000)	-	(7 624 000)	-		(7 624 000)	(10 436 407)		(2 812 407)	137 %	137 %
Net cash from (used) financing	(1 284 000)	-	(1 284 000)	-		(1 284 000)	(1 168 568)		115 432	91 %	91 %
Net increase/(decrease) in cash and cash equivalents	**4 464 000**	**(18 855 000)**	**(14 391 000)**	**-**		**(14 391 000)**	**(813 212)**		**13 577 788**	**6 %**	**(18)%**
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	1 127 272		1 127 272	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	**4 464 000**	**(18 855 000)**	**(14 391 000)**	**-**		**(14 391 000)**	**314 060**		**(14 705 060)**	**(2)%**	**7 %**

Accounting Policies

1. Presentation of Financial Statements

The 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 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 offset, 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 financial statements, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions and contingent liabilities

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the prime interest rate plus 2% to discount future cash flows.

Allowance for doubtful debts

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

Budget Information

The annual budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies adopted by Council for the preparation of these financial statements. The amounts are scheduled as a seperate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the financial statements, firstly stating reasons for overall growth or decline in the budget,and secondly, motivating overspending or underspending on line items.

The annual budget figures included in the financial statements are for the Municipality. These figures are those approved by Council both at beginning and during the year following a period of consultation with the public as part of the IDP.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Comparative Information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustments is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the annual financial statements. Materiality depends on the nature or amount of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information items, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not corrolate with the auditor's materiality.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

1.2 Investment property (continued)

Fair value

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

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

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

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

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

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.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the 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.

1.3 Property, plant and equipment (continued)

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.

Subsequent recognition

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings and Land and Buildings classified as Community assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	5 - 15 years
Furniture and fixtures	7 - 10 years
Motor vehicles	5 - 20 years
Office equipment	3 - 5 years
IT equipment	3 - 5 years
Computer software	3 - 5 years
Infrastructure	
• Electricity	10 - 50 years
• Roads	5 - 80 years
• Sewerage	10 - 60 years
• Water	20 - 100 years
Community	20 years

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

Reviewing the useful life of an asset on an annual basis does not require the 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.

1.3 Property, plant and equipment (continued)

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

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

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

1.4 Intangible assets

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

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

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Accounting Policies

1.4 Intangible assets (continued)

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Licenses and franchises	1 years
Computer software, other	3 years

1.5 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 financial statements.

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.

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

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.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

1.6 Financial instruments

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

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

1.6 Financial instruments (continued)

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

1.6 Financial instruments (continued)

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

1.6 Financial instruments (continued)

Classification

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

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transaction	Financial asset measured at amortised cost

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.6 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.

Fair value measurement considerations

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

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

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

Accounting Policies

1.6 Financial instruments (continued)

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.

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

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.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

1.6 Financial instruments (continued)

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

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.

Dividends or similar distributions 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.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

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 .

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

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

1.7 Leases (continued)

Operating leases - lessor

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

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

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

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 statement of financial performance.

Operating leases - lessee

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

1.8 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the 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.

1.9 Impairment of cash-generating assets

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

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

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

1.9 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Discount rate

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.11 Employee benefits

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

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

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

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

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

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

1.11 Employee benefits (continued)

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

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

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

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.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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 benefits in the cost of an asset.

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

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

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

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

Accounting Policies

1.11 Employee benefits (continued)

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.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

1.11 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

1.12 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

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

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

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

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

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

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

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

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

1.13 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

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

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

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

1.14 Revenue from non-exchange transactions

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

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

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

Exchange transactions are transactions in which one 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.

1.14 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.14 Revenue from non-exchange transactions (continued)

Taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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

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

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

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.

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.

Rates, including collection charges and penalties interest

Bequests that satisfy the definition of an asset 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.

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

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

1.15 Investment income

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

1.16 Borrowing costs

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

Accounting Policies

1.16 Borrowing costs (continued)

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.

1.17 Comparative figures

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

1.18 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.

Detailed disclosures are made in note 43 to the annual financial statements as required by the Municipal Finance Management Act (Act No.56 of 2003)

1.19 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.

Detailed disclosures are made in note 44 to the annual financial statements as required by the Municipal Finance Management Act (Act No.56 of 2003)

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA 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) the MFMA, and has not been condoned in terms of section 170
(b) the Municipal System Act, and which has not been condoned in term of that act;
(c) the Public Office-Bearers Act, 1998 (Act No.20 of 1998) and the requirements of the supply chain management policy of the municipality in accordance with the municipality's by-laws giving effect to such policy and which has not been condoned in terms of such policy or by-law.

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.

1.20 Irregular expenditure (continued)

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.

1.21 Budget information

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

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

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

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

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

1.22 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 local sphere of government are considered to be related parties.

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

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

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

1.23 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.

Accounting Policies

1.23 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate0 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.

1.24 Value-Added Tax (VAT)

The municipality applies the payment basis for VAT purposes as per the Value-Added Tax Act. Output VAT is payable as and when the purchase consideration are received and input will be claimed as and when payment is made.

Notes to the Financial Statements

Figures in Rand	2015	2014

2. Changes in accounting policy

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

- Property, plant and equipment
- Investment Property

Property, plant and equipment

During the year, the municipality changed its accounting policy with respect to the treatment of Property, plant and equipment. In order to conform with the benchmark treatment in of GRAP 17 par 39 Revaluation model. The municipality now show land and buildings and land and buildings classified as community assets at revaluation amounts.

As the municipality were unable to fully comply with directive 7 and could not establish actuall cost for all land and building management decided to used the valuation roll as basis to value there assets. This source is more reliable as the information is more recent and there were no records pertaining to the cost of land and buildings.

Investment Property

During the year, the municipality changed its accounting policy with respect to the treatment of Investment property. In order to conform with the benchmark treatment in of GRAP16– par 41. The municipality now shows investment property at fair value on the same basis as for property, plant and equipment as per above.

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2014 is as follows:

Statement of financial position

	2015	2014
Property, plant and equipment		
Previously stated	-	6 930 616
Adjustment	-	52 878 370
	-	**59 808 986**

Statement of Financial Performance

	2015	2014
Depreciation on investment property		
Previously stated	-	80 600
Adjustment	-	(80 600)
	-	**-**

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	The impact of the amendment is not material.
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	The impact of the amendment is not material.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	The impact of the amendment is not material.
• GRAP 107: Mergers	01 April 2015	The impact of the amendment is not material.

Notes to the Financial Statements

3. New standards and interpretations (continued)

• GRAP 20: Related parties	01 April 2016	The impact of the amendment is not material.
• IGRAP 11: Consolidation – Special purpose entities	01 April 2015	The impact of the amendment is not material.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015	The impact of the amendment is not material.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2015	The impact of the amendment is not material.
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2015	The impact of the amendment is not material.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2015	The impact of the amendment is not material.
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	The impact of the amendment is not material.

Notes to the Financial Statements

Figures in Rand	2015	2014

4. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6 192 220	-	6 192 220	6 192 220	-	6 192 220

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	6 192 220	6 192 220

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	6 192 220	6 192 220

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

5. 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	42 906 700	-	42 906 700	42 616 800	-	42 616 800
Buildings	20 354 135	(3 451 849)	16 902 286	20 007 644	(1 483 447)	18 524 197
Infrastructure	218 306 217	(103 270 040)	115 036 177	200 712 160	(92 695 376)	108 016 784
Community	11 255 386	(5 239 089)	6 016 297	11 255 377	(4 782 458)	6 472 919
Other property, plant and equipment	7 572 404	(5 672 824)	1 899 580	7 145 194	(4 835 222)	2 309 972
Work in progress	7 167 957	-	7 167 957	15 645 671	-	15 645 671
Total	**307 562 799**	**(117 633 802)**	**189 928 997**	**297 382 846**	**(103 796 503)**	**193 586 343**

Notes to the Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	42 616 800	289 900	-	-	-	-	42 906 700
Buildings	18 524 197	346 500	-	-	(763 505)	(1 204 905)	16 902 287
Infrastructure	108 016 784	-	17 068 550	525 507	(10 574 663)	-	115 036 178
Community	6 472 919	-	-	-	(456 622)	-	6 016 297
Other property, plant and equipment	2 309 972	247 635	-	179 575	(837 602)	-	1 899 580
Work in progress	15 645 671	8 590 836	(17 068 550)	-	-	-	7 167 957
	193 586 343	**9 474 871**	**-**	**705 082**	**(12 632 392)**	**(1 204 905)**	**189 928 999**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Other changes, movements	Depreciation	Impairment loss	Total
Land	42 584 800	-	32 000	-	-	42 616 800
Buildings	18 882 934	391 623	-	(750 360)	-	18 524 197
Infrastructure	146 969 432	75 921	878 226	(14 223 327)	(25 683 468)	108 016 784
Community	8 039 642	-	-	(1 566 723)	-	6 472 919
Other property, plant and equipment	3 214 775	617 258	-	(1 522 061)	-	2 309 972
Work in progress	6 095 204	9 550 467	-	-	-	15 645 671
	225 786 787	**10 635 269**	**910 226**	**(18 062 471)**	**(25 683 468)**	**193 586 343**

5. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 01 July 2013. Revaluations were performed by independent valuer company, Value Data, Mr Pierre De Klerk professional valuers in terms of the Valuer's Act (Act 23 of 1982). ValueData is not connected to the municipality.

Land and buildings are re-valued independently every 5 years.

These assumptions were based on current market conditions.

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Included within Community	Total
Opening balance	15 645 671	-	15 645 671
Additions/capital expenditure	8 537 168	53 668	8 590 836
Transferred to completed items	(17 068 550)	-	(17 068 550)
	7 114 289	**53 668**	**7 167 957**

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Opening balance	6 095 204	6 095 204
Additions/capital expenditure	9 550 467	9 550 467
	15 645 671	**15 645 671**

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.

6. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Licenses	323 602	(270 532)	53 070	67 050	(44 700)	22 350

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Licenses	22 350	256 552	(225 832)	53 070

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Licenses	44 700	(22 350)	22 350

7. Employee benefit obligations

Long Service Awards Liability

The expected value of each employee’s long service award is projected to the next interval by allowing for future salary growth.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Long service benefits are awarded in the form of leave days and a percentage of salary. We have converted the awarded leave days into a percentage of the employee’s annual salary. The conversion is based on a 250 working day year and therefore the benefits awarded can be expressed as follows:

Completed Years of service	Long Service Leave Award (Working Days)	Long Service Bonus Award (% of Annual Salary)	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	10	3%	7%	(10/250+3%)
15	10	4%	8%	(10/250+4%)
20	15	5%	11%	(15/250+5%)
25,30,35,40 and 45	15	6%	12%	(15/250+6%)

The accrued liability is determined on the basis that each employee’s long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

Notes to the Financial Statements

Figures in Rand	2015	2014

7. Employee benefit obligations (continued)

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables:
The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable	Assumed Value 30-06-2015 (Current Valuation)	Assumed Value 30-06-2014 (Preceding valuation)
Discount Rate	Yield Curve	7,98%
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	6,35%
Normal Salary Increase Rate	Equal to CPI+1%	7,35%
Net Effective Discount Rate	Yield Curve Based**	0,59%

7. Employee benefit obligations (continued)

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

We use the nominal and real zero curves as at 30 June 2015 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

** The Net Effective Discount Rate is different for each relevant time period of the yield curves’ various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2015 of 6.79%. As at the time of this valuation South African Municipal salaries' negotiations were still in progress. Therefore, for the purpose of performing this valuation, we have assumed that the previous year's increase rate of 6.79% is still relevant in this year's valuation. The next salary increase was assumed to take place on 01 July 2016.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20-24	5%
25-29	4%
30-34	3%
35-39	2%
40-44	1%
45 and over	0%

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

7. Employee benefit obligations (continued)

Heading	Withdrawal Rate Males	Withdrawal Rate Females
20-24	16%	24%
25-29	12%	18%
30-34	10%	15%
35-39	8%	10%
40-44	6%	6%
45-49	4%	4%
50-54	2%	2%
55-59	1%	1%

Total eligible employees	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20-29	18	126 703	1,63	1 909
30-39	35	124 504	4,36	7 238
40-49	21	120 119	10,31	15 041
50-59	15	126 709	16,16	14 355
60+	4	103 746	15,99	-
	93	**123 402**	**7,50**	**8 805**

Changes in the present value long service obligation are as follows:

	2015	2014
Accrued Liability as at 30 June 2014	1 047 000	969 000
Net expense recognised in the statement of financial performance	(228 000)	78 000
	819 000	**1 047 000**

Net expense recognised in the statement of financial performance

	2015	2014
Current Service Cost (As calculated at 30 June 2014)	147 000	118 000
Interest Cost (As calculated at 30 June 2014)	86 000	74 000
Actuarial (gains) losses	(423 031)	(39 000)
Benefits paid	(37 969)	(75 000)
	(228 000)	**78 000**

Calculation of actuarial gains and losses

	2015	2014
Actuarial (gains) losses – Obligation	(423 031)	(39 000)

Sensitivity Analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation;

Notes to the Financial Statements

Figures in Rand	2015	2014

7. Employee benefit obligations (continued)

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	881 000	819 000	765 000
Current Service Cost	130 000	113 000	100 000
Interest Cost	83 000	77 000	71 000

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	761 000	819 000	883 000
Current Service Cost	102 000	113 000	125 000
Interest Cost	71 000	77 000	83 000
	934 000	**1 009 000**	**1 091 000**

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount Rate
GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

We use the nominal and real zero curves as at 30 June 2015 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Net Effective Discount Rate
The Net Effective Discount Rate is different for each relevant time period of the yield curves’ various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate
We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2015 of 6.79%. As at the time of this valuation South African Municipal salaries' negotiations were still in progress. Therefore, for the purpose of performing this valuation, we have assumed that the previous year's increase rate of 6.79% is still relevant in this year's valuation. The next salary increase was assumed to take place on 01 July 2016.

Changes in the value of the obligation	Current Valuation Date 30-06-2015	1 Year Following the Valuation Date	2 Years Following the Valuation Date	3 Years Following the Valuation Date
PV of the obligation as at the previous valuation date	1 047 000	819 000	964 000	1 084 271
Current Service Cost	147 000	113 000	115 613	118 768
Interest Cost	86 000	77 000	89 659	99 212
Benefits Paid	(37 969)	(45 000)	(85 000)	(120 000)
Actuarial Loss / (Gain)	(423 031)	-	-	-
	819 000	**964 000**	**1 084 272**	**1 182 251**

Amounts recognised in the balance sheet and the income statement:	Current Valuation Date 30-06-2015	1 Year Following the Valuation Date	2 Year Following the Valuation Date	3Year Following the Valuation Date
Liability recognised in the balance sheet	819 000	964 000	1 084 271	1 182 251
Current Service Cost in the income statement	147 000	113 000	115 613	118 768
Interest Cost in the income statement	86 000	77 000	89 659	99 212
Actuarial Loss / (Gain) recognised in Other Comprehensive Income	(423 031)	-	-	-

Notes to the Financial Statements

Figures in Rand	2015	2014

8. Inventories

Maintenance materials and Stationary	255 799	240 551
Water	289 944	223 906
	545 743	**464 457**

9. Receivables from non-exchange transactions

Impairment - Other Taxes	(5 569 232)	(4 405 211)
Other taxes	11 788 852	9 467 053
	6 219 620	**5 061 842**

10. VAT receivable

VAT	3 930 606	4 313 454

VAT is receivable/payable on the cash basis. VAT is paid over to SARS once payment is received from debtors and claimed from SARS once suppliers have been paid. This amount is the net effect of the municipalities control accounts for debtors and creditors for which payment were received and payments made to suppliers.

11. Consumer debtors

Gross balances		
Electricity	3 593 121	2 335 294
Water	11 477 703	8 041 552
Sewerage	4 385 034	3 011 738
Refuse	4 563 217	2 980 355
Housing rental	9 232	14 769
Sundries & VAT	4 122 129	2 770 321
	28 150 436	**19 154 029**
Less: Allowance for impairment		
Electricity	(2 558 375)	(1 680 274)
Water	(10 688 930)	(7 841 646)
Sewerage	(3 996 443)	(2 881 725)
Refuse	(3 995 664)	(2 684 594)
Housing rental	(4 305)	(1 967)
Sundries & VAT	(3 933 928)	(2 437 144)
	(25 177 645)	**(17 527 350)**
Net balance		
Electricity	1 034 746	655 020
Water	788 773	199 906
Sewerage	388 591	130 012
Refuse	567 553	295 761
Housing rental	4 927	12 802
Sundries & VAT	188 201	333 176
	2 972 791	**1 626 677**

Notes to the Financial Statements

Figures in Rand	2015	2014

11. Consumer debtors (continued)

Rates		
Current (0 -30 days)	494 963	660 347
31 - 60 days	363 016	590 143
61 - 90 days	299 193	526 245
91 - 120 days	192 997	422 579
121 - 365 days	4 816 847	2 862 528
	6 167 016	**5 061 842**
Electricity		
Current (0 -30 days)	523 495	510 303
31 - 60 days	264 456	144 717
61 - 90 days	114 154	-
91 - 120 days	45 051	-
121 - 365 days	87 590	-
	1 034 746	**655 020**
Water		
Current (0 -30 days)	528 812	199 906
31 - 60 days	123 955	-
61 - 90 days	54 026	-
91 - 120 days	19 268	-
121 - 365 days	62 712	-
	788 773	**199 906**
Sewerage		
Current (0 -30 days)	299 490	130 012
31 - 60 days	46 998	-
61 - 90 days	18 352	-
91 - 120 days	5 836	-
121 - 365 days	17 915	-
	388 591	**130 012**
Refuse		
Current (0 -30 days)	401 309	282 163
31 - 60 days	82 314	13 598
61 - 90 days	33 743	-
91 - 120 days	7 715	-
121 - 365 days	42 472	-
	567 553	**295 761**
Housing rental		
Current (0 -30 days)	4 927	12 802
Sudaries & VAT		
Current (0 -30 days)	154 773	333 176
31 - 60 days	4 140	-
61 - 90 days	1 124	-
91 - 120 days	6 284	-
121 - 365 days	21 880	-
	188 201	**333 176**

Figures in Rand	2015	2014

11. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	5 028 492	1 744 574
31 - 60 days	1 569 491	1 113 094
61 - 90 days	1 178 569	974 967
91 - 120 days	1 190 614	823 093
121 - 365 days	22 524 841	17 627 095
	31 492 007	22 282 823
Less: Allowance for impairment	(28 396 501)	(20 274 304)
	3 095 506	**2 008 519**
Industrial/ commercial		
Current (0 -30 days)	753 459	571 991
31 - 60 days	383 972	323 652
61 - 90 days	266 263	252 239
91 - 120 days	182 074	135 542
121 - 365 days	1 775 987	1 310 324
	3 361 755	2 593 748
Less: Allowance for impairment	(2 350 377)	(1 732 260)
	1 011 378	**861 488**
National and provincial government		
Current (0 -30 days)	234 482	234 007
31 - 60 days	207 010	166 384
61 - 90 days	203 621	166 067
91 - 120 days	185 167	163 058
121 - 365 days	4 938 310	3 160 656
	5 768 590	**3 890 172**
Total		
Current (0 -30 days)	6 016 433	2 550 572
31 - 60 days	2 160 473	1 603 130
61 - 90 days	1 648 453	1 166 273
91 - 120 days	1 557 855	1 121 693
121 - 365 days	29 239 138	22 098 075
	40 622 352	28 539 743
Less: Allowance for impairment	(37 649 561)	(26 913 065)
	2 972 791	**1 626 678**
Less: Allowance for impairment		
Current (0 -30 days)	(25 177 646)	(17 527 350)
Total debtor past due but not impaired		
61 - 90 days	203 621	166 067
91 - 120 days	185 167	163 058
121 - 365 days	4 938 310	3 160 656
	5 327 098	**3 489 781**

Figures in Rand	2015	2014

11. Consumer debtors (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(17 224 236)	(16 401 383)
Contributions to allowance	(7 953 410)	(1 125 967)
Reversal of allowance	-	-
	-	-
	(25 177 646)	**(17 527 350)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	312 243	1 127 272
Short-term deposits	1 817	-
	314 060	**1 127 272**

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**
First National Bank account number 62021476313	945	1 162 874	8 084 806	945	1 162 874	8 084 806
First National Bank account number 62289233547	983	-	1 000	983	-	1 000
First National Bank account number 52003878794	312 243	954 382	1 601 111	312 243	(35 492)	1 601 111
First National Bank account number 62076024571	(144)	(144)	856	(144)	(144)	856
First National Bank account number 62067443582	33	33	1 034	33	33	1 034
First National Bank account number 620288354562	-	-	1 000	-	-	1 000
First National Bank account number 62260630829	-	-	939	-	-	1 000
First National Bank account number 62289312094	-	-	1 000	-	-	1 000
First National Bank account number 62289352727	-	-	1 000	-	-	1 000
First National Bank account number 62070625016	-	-	1 000	-	-	1 000
First National Bank account number 62260631918	-	-	1 000	-	-	1 000
First National Bank account number 62289228548	-	-	1 000	-	-	1 000
Total	**314 060**	**2 117 145**	**9 695 746**	**314 060**	**1 127 271**	**9 695 807**

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG	-	1 389 446
Housing Grant	66 792	66 792
Library Grant	601 575	424 118
EPWP Grant	1 345	-
	669 712	**1 880 356**

Notes to the Financial Statements

Figures in Rand	2015	2014

13. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	1 880 356	9 446 695
Additions during the year	12 152 000	7 429 389
Income recognition during the year	(13 362 644)	(14 995 728)
	669 712	**1 880 356**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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

14. Other financial liabilities

At amortised cost		
DBSA loan	1 865 761	3 034 330
Terms and conditions		
Non-current liabilities		
At amortised cost	637 172	1 870 511
Current liabilities		
At amortised cost	1 228 589	1 163 819

Notes to the Financial Statements

Figures in Rand	2015	2014

15. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	5 308 812	83 991	5 392 803

Reconciliation of provisions - 2014

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	5 179 513	129 299	5 308 812

	2015	2014
Non-current liabilities	5 283 086	5 224 821
Current liabilities	109 717	83 991
	5 392 803	**5 308 812**

Land Fill Site - Rehabilitation

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any futher pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of National Environmental Management: Waste Act, Act 59 of 2008.

The expected time of rehabilitation is 10 years from now in 2025.

The following key assumptions used;

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.
As such a discount rate of 8.83% p.a has been used. The was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 30 June 2015.

The consumer price inflation of 6.69% p.a is obtained from the differential between the long term market yields on the index-linded bond (the R197 at 1.68% p.a) consistent with the estimated term of the liabilities and those of nominal bond (the R 186 at 8.45% p.a).

Key Financial assumption		
Discount rate	8,83%	8,51%
Consumer price inflation	6,66%	6,82%
Net discount rate	2,03%	1,58%

Notes to the Financial Statements

Figures in Rand	2015	2014

16. Payables from exchange transactions

Trade payables	16 971 444	7 439 102
Payments received in advanced	-	365 759
Prepaid electricity sold not utilized	52 525	158 403
Accrued leave pay	1 016 063	824 046
Accrued bonus	645 476	590 602
Unallocated receipts	488 335	944 514
Debtors with credit balance	508 663	307 900
	19 682 506	**10 630 326**

17. Consumer deposits

Electricity	427 406	18 268
Water	882 237	300 489
Refuse	5 759	-
Sewerage	6 744	434
	1 322 146	**319 191**

18. Service charges

Sale of electricity	15 116 670	13 214 370
Sale of water	6 805 162	6 117 078
Solid waste	5 829 137	5 356 401
Sewerage and sanitation charges	4 190 171	3 839 773
	31 941 140	**28 527 622**

19. Other income

General income	338 361	239 359
Insurance claims	3 325	478 975
Fines on bridging of meters	79 129	21 959
	420 815	**740 293**

20. Investment revenue

Bank	102 381	336 326

21. Property rates

Rates received

Residential	5 026 499	4 502 666
Industrial	808 190	757 298
State	212 550	217 883
Rezoning	215 668	207 041
Rezoning	8 943	25 154
Industrial	117 484	98 772
Mining	2 804 977	2 578 013
	9 194 311	**8 386 827**

Notes to the Financial Statements

Figures in Rand	2015	2014

22. Government grants and subsidies

Operating grants		
Equitable share	16 094 000	15 302 000
FMG	1 800 000	1 650 000
MSIG	934 000	890 000
Library	397 542	32 882
	19 225 542	17 874 882
Capital grants		
MIG	9 232 446	10 772 602
EPWP	998 655	1 000 000
RDP Housing Grant	-	4 364 597
	10 231 101	16 137 199
	29 456 643	**34 012 081**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received (Conditions met)	14 115 742	18 710 081
Unconditional grants received	16 094 000	15 302 000
	30 209 742	**34 012 081**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	1 389 446	9 392 048
Current-year receipts	7 843 000	2 998 000
Conditions met - transferred to revenue	(9 232 446)	(11 000 602)
	-	**1 389 446**

Conditions still to be met - remain liabilities (see note 13).

Housing Grant

Balance unspent at beginning of year	66 792	-
Current-year receipts	-	4 431 389
Conditions met - transferred to revenue	-	(4 364 597)
	66 792	**66 792**

Conditions still to be met - remain liabilities (see note 13).

FMG

Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 650 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 13).

22. Government grants and subsidies (continued)

Municipal System Improvement Grant

Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Library Grant

Balance unspent at beginning of year	424 118	-
Current-year receipts	575 000	457 000
Conditions met - transferred to revenue	(397 543)	(32 882)
	601 575	**424 118**

Conditions still to be met - remain liabilities (see note 13).

EPWP

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(998 655)	(1 000 000)
	1 345	-

Conditions still to be met - remain liabilities (see note 13).

23. Public contributions and donations

Public contributions and donations	1 458 483	878 227

Donations recieved for the 2014/15 financial year as part of the social labour plans of the mining companies in Danielskuil. The donation was in respect of the upgrading of the electricity network of the municipality.

Land recieved from government indentended for re-distrubution and development of the local communities.

24. Revenue

Service charges	31 941 140	28 527 623
Interest received (trading)	168 262	799 205
Fees earned	716 821	909 439
Commissions received	806 711	210 160
Rental income	235 290	321 274
Other income	420 816	740 293
Interest received - investment	102 381	336 326
Property rates	9 194 310	8 386 828
Government grants & subsidies	29 456 644	34 012 081
Public contributions and donations	1 458 483	878 227
Fines, Penalties and Forfeits	7 949	24 232
	74 508 807	**75 145 688**

Figures in Rand	2015	2014

24. Revenue (continued)

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

Service charges	31 941 140	28 527 623
Interest received (trading)	168 262	799 205
Fees earned	716 821	909 439
Commissions received	806 711	210 160
Rental income	235 290	321 274
Other income	420 816	740 293
Interest received - investment	102 381	336 326
	34 391 421	**31 844 320**

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

Taxation revenue		
Property rates	9 194 310	8 386 828
Transfer revenue		
Government grants & subsidies	29 456 644	34 012 081
Public contributions and donations	1 458 483	878 227
Fines, Penalties and Forfeits	7 949	24 232
	40 117 386	**43 301 368**

25. General expenses

Advertising	93 211	52 984
Assets expensed	96 951	-
Auditors remuneration	2 176 399	1 327 036
Bank charges	129 167	236 488
Cleaning and Chemicals	344 921	296 469
Commission paid	829 744	3 304
Community development and training	10 423	289 050
Conferences and seminars	7 500	20 085
Consulting and professional fees	6 146 095	1 884 203
Entertainment	24 425	3 502
Fuel and oil	627 825	1 564 394
Hire	24 394	39 387
IT expenses	255 499	19 328
Insurance	202 093	411 014
Interest and Penalties	400 057	224 850
Medical Examinations Employees	11 451	8 846
Membership Fees	462 498	450 000
Postage and courier	185 987	119 617
Printing and stationery	98 029	178 648
Protective clothing	17 726	-
Security Services	667 231	148 645
Telephone Expenses	258 004	297 506
Training	201 580	56 899
Travel - local	956 711	476 163
Valuation Expenses	-	4 158
Workman Compensation	98 881	-
	14 326 802	**8 112 576**

Notes to the Financial Statements

Figures in Rand	2015	2014

26. Employee related costs

Basic	12 875 100	9 610 833
Bonus	772 566	614 279
Medical aid - company contributions	804 303	619 597
UIF	111 522	93 970
WCA	73 004	-
SDL	139 216	117 329
Bargaining Council	7 532	5 671
Leave	283 086	-
Group Insurance	10 672	11 786
Standby Allowances	112 626	74 772
Defined contribution plans	1 759 389	1 285 778
Travel, motor car, accommodation, subsistence and other allowances	598 522	508 048
Overtime payments	780 804	848 814
Long service bonus provision	(190 031)	266 898
Acting allowances	42 893	19 379
Housing allowance	60 032	61 532
Cellphone allowance	4 900	-
Other Employee Related Benefits	-	4 551
	18 246 136	**14 143 237**

Long service bonus provision include the following

Interest	86 000	86 000
Actuarial loss/(Gain)	(423 031)	-
Current serivce cost	147 000	180 898
	(190 031)	**266 898**

The above Employee related cost includes remuneration of Section 57 managers as presented below.

Remuneration of Municipal Manager

Annual Remuneration	667 527	496 973
Travel Allowance	186 360	186 360
Contributions to UIF, Medical and Pension Funds	9 450	14 634
Other	-	4 054
	863 337	**702 021**

Remuneration of Chief Finacial Officer

Annual Remuneration	450 000	225 000
Travel Allowance	150 000	75 000
Contributions to UIF, Medical and Pension Funds	1 785	892
	601 785	**300 892**

Remuneration of Technical Manager

Annual Remuneration	383 280	191 640
Travel Allowance	120 000	60 000
Housing allowance	96 720	48 360
Contributions to UIF, Medical and Pension Funds	5 776	3 772
	605 776	**303 772**

Notes to the Financial Statements

Figures in Rand	2015	2014

27. Remuneration of councillors

Mayor	700 313	666 793
Councillors	1 491 683	1 455 151
	2 191 996	**2 121 944**

In-kind benefits

The Mayor, is full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties and Council owned laptop. Councilors are also provided with laptops

The Mayor has a fulltime driver for official duties, at cost to company.

Councillor remuneration is in line with upper limits that is Gazetted and the framework envisaged in section 219 of the Constitution.

28. Debt impairment

Bad debts written off	-	4 022 020

29. Depreciation and amortisation

Property, plant and equipment	12 632 391	18 062 473
Intangible assets	225 832	22 350
	12 858 223	**18 084 823**

30. Impairment of assets

Impairments		
Property, plant and equipment Arson Incident happened during the month of April 2015, and a portion of the building was destroyed in the fire.The recoverable amount of the asset was based on its fair value less costs to sell.	1 204 905	25 683 465
Trade and other receivables If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.	9 116 251	1 617 638
	10 321 156	**27 301 103**

The main classes of assets affected by impairment losses are:

Service charges presented in note 20.

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Consumer debtors are defaulting on paying for municipal services delivered.

Notes to the Financial Statements

31. Finance costs

Figures in Rand	2015	2014
Current borrowings	126 258	200 481
Fair value adjustments: Notional interest	83 991	24 750
	210 249	**225 231**

Notes to the Financial Statements

Figures in Rand	2015	2014

32. Auditors' remuneration

Fees	2 176 399	1 327 036

33. Contracted services

Other Contractors	3 190 626	3 408 647

34. Grants and subsidies paid

Other subsidies		
Build RDP Houses	-	4 177 079
Finance Management Grant (FMG)	396 586	-
Municipal Systems Improvement Grant (MSIG)	724 994	594 656
Finance Management Grant (FMG)	1 758 916	2 016 713
Potholes EPWP Projects	937 438	468 093
Group co ID 18	3 880 934	4 934 104
	7 698 868	**12 190 645**

35. Bulk purchases

Electricity	13 716 464	12 755 592

36. Cash generated from operations

Deficit	(9 769 422)	(28 645 894)
Adjustments for:		
Depreciation and amortisation	12 858 223	18 084 823
Loss on sale of assets and liabilities	(100)	-
Fair value adjustments	-	(148 777)
Interest income	-	-
Finance costs	-	-
Impairment deficit	10 321 156	27 301 104
Debt impairment	-	4 022 020
Movements in retirement benefit assets and liabilities	(228 000)	1 047 000
Movements in provisions	83 991	1 097 396
Changes in working capital:		
Inventories	(81 286)	(517 777)
Receivables from exchange transactions	(9 116 251)	-
Consumer debtors	(1 346 113)	(4 285 009)
Other receivables from non-exchange transactions	(1 157 778)	(1 183 049)
Payables from exchange transactions	9 052 183	2 545 655
VAT	382 848	(2 592 311)
Unspent conditional grants and receipts	(1 210 644)	(7 283 692)
Consumer deposits	1 002 956	37 750
	10 791 763	**9 479 239**

Notes to the Financial Statements

Figures in Rand	2015	2014

37. Commitments

Authorised expenditure

Approved and contracted		
• Capital	27 657 385	11 369 273
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	81 445 321	82 019 166
Total capital commitments		
Already contracted for but not provided for	27 657 385	11 369 273
Not yet contracted for and authorised by accounting officer	81 445 321	82 019 166
	109 102 706	**93 388 439**

38. Contingencies

Temporary driver for the mayor from June 2011 to July 2011, he was paid per kilometer travelled. He wants to take the municipality to the labour court as he wanted a fixed salary to be paid to him.

Contingent liability - Unlicensed landfill sites

The municipality managed landfill site without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed.

Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community.

Description	Estimated Value	Legal fees/ Interest	Total Estimated Cost to Municipality
Labour Case (Plaintiff is suing the municipality for unfair labour practise. The plaintiff was acting as CFO for a period of 18 months, but was not appointed in the position when it became available)	500 000	125 000	625 000
Gerhardus Jacobus Herbst Claim against the municipality for damages to property due to faulty electricity networks	17 636	4 409	22 045
The Plaintiff has sued the municipality for bridge of contract, as services was terminated on the basis of services not rendered to the municipality.	800 000	200 000	1 000 000
Service provider was appointed on a 50% basis of amount received from VAT recovery. The consultants has not recover any amount outstanding.	645 192	161 298	806 490
Plaintiff is suing the municipality for work done on the electrification of a area in Danielskuil. Municipality is of the opinion that no supply chain process was followed and no evidence of work done could be traced.	84 379	21 095	105 474
SARS Preliminary VAT 201 assessment audit for 2010 untill 2014, resulted in the municipality owing SARS, final assessment still outstanding	5 744 739	574 474	6 319 213
	7 791 946	**1 086 276**	**8 878 222**

Notes to the Financial Statements

Figures in Rand	2015	2014

39. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Chief Financial Officer	Petra Booysen
Councillor's	Olebogeng Hendrik Sehularo (councilor ward 1) -BKTLG Filling Station (deregistered) -DK DAM Lime holdings Gerhald Peter MC Carthy (councilor ward 3) -G Man Towing Johannes Baatjies (PR Councilor) -Dam Lime Security Services (derigistration processes) -JBS Building and cleaning construction (In Business) Jill Ugene Lottering(PR Councilor) -Ntlnyana Catering and Liquor Enterprise A Visser (PR Councilor)
Members of key management	GM Nthompe

The above mentioned councilors and managers has active business during the financial year under review, however did not trade with the municipality either directly or indirectly.

40. Change in estimate

Employee cost

During the current financial year, actuarial valuation key assumptions were change from using a single discounting rate to value long service awards to using yield curve over a each employers assumed liability.

Change in the future valuation is a expected increase of R 145,000.

41. Prior period errors

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

	2015	2014
Statement of financial position		
Increase in Property, plant and equipment	-	59 918 810
Increase in Investment property	-	836 220
Increase in Consumer deposit	-	7 191
Decrease in Inventory	-	(40 926)
Increase in Payables from exchange transactions	-	(3 129)
Increase in Unspent conditional grants and receipts	-	(282 647)
Increase in Provisions	-	(3 213 448)
Opening Accumulated Surplus or Deficit	-	(6 447 783)
Revaluation reserve	-	(51 060 065)
Statement of Financial Performance		
Decrease other income	-	3 129
Decrease Government grants & subsidies	-	282 647
Increase Finance cost	-	24 750
Increase in depreciation	-	32 613 826
Increase in Public donations & Contributions	-	(878 227)

Figures in Rand	2015	2014

41. Prior period errors (continued)

1) Property,plant and equipment.

Community assets historical cost increase due to landfill site who rehabilitation cost that was not capitalised to the community assets and land items included as public open spaces form the valuation roll to R 8 079,676.06.

Accumulating depreciation increase with R 3 114,105.63.

Depreciation increase subsequenty with R 1 468,041.72

Land and Buildings historical cost increase with R 55 818,148.32 as the valuation roll items were previously ommitted from the land and building register.

Additions in the previous year decrease with R 301,865.68 as this expenditure was incorrectly capitalised.

Accumulating depreciation on building increase with R 601,599.20

Depreciation increase subsequently with R 593,302

Infrastructure assets

Historical cost of infrastructure assets increase with R30 709,921.91 due to incompleteness of assets registers in the previous financial year and the incorrect application of GRAP 17 application.

Accumulating depreciation increase with R 25 855,690.18 as a result of the increase in number of items identified and included on the fixed assets registers.

Depreciation in the subsequent periods increase with R 29 224,200.53 as a result of the above.

Other property, plant and equipment

Historical cost of other property, plant and equipment increase with R 6 271,957.18 due to incompleteness of the previous assets registers being incomplete and incorrect application of GRAP 17. The previous assets register did not have material component included individually.

Accumulating depreciation increase as a result of the above with R 3 313,159.95.

Depreciation in the subsequent periods increase with R 1 351,850 as a result of the above

2) Investment property

Historical cost increase with R 757, 200 as result of 4 new properties that was previously not included on the register.

Accumulating depreciation increase with R 1,580.

Depreciation increase with R 1,580.

3) Consumer Deposits

Deposit for 2013/14 was corrected by implementing the tariff policy in which all deposits was brought in line with current consumption and categories of use.

4) Inventory

During the previous financial year the municipality did not account for the water invenorty at year end to R 223,906.

During the previous financial year the municipality did not perform a proper stock or reconciliation to final material and stationary. The balance has been corrected in the current with a write off of stock to the amount of R 264,831.54.

5) Payables from exchange transaction

Notes to the Financial Statements

Figures in Rand	2015	2014

41. Prior period errors (continued)

License fees incorrectly paid by client in Kgatelopele account and refunded to client from creditors.

6) Unspent conditional grants

Correction was made to the grant expenditure that previously did not meet the condition of the grant.

7) Provisions

Landfill sites future restoration cost evaluation change in assumptions used in the previous valuation. The was regarded as a error not as a change in estimate.

8) Other Income

License fees incorrectly paid by client in Kgatelopele account and refunded to client from creditors.

9) Government grants & subsidies

Correction was made to the grant expenditure that previously did not meet the condition of the grant.

10) Finance cost

This change is due to the change in landfill sites.

11) Depreciation

Restatements was made to the assets registers as a result of errors and ommision in the previous assets registers.

42. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

	2015	2014
Statement of financial position		
Inventories	464 457	505 383
Investment property	6 192 220	5 425 980
Property, plant and equipment	193 586 343	165 593 147
Heritage assets	260 000	-
Payables from exchange transactions	10 630 325	8 739 824
Consumer deposits	319 191	326 382
Employee benefit obligation - Current liabilities	131 000	-
Employee benefit obligation	916 000	-
Unspent conditional grants and receipts	1 880 356	-
Provisions	5 224 821	3 117 614
Statement of Financial Performance		
Interest received (trading)	799 205	-
Fees earned	909 439	912 568
Commission received	210 160	6 800
Other income	740 293	943 653
Interest received - investment	336 326	1 135 531
Government grants & subsidies	34 012 081	34 294 728
Public contributions	878 227	-
Impairment loss/Reversal of impairments	(27 301 104)	(1 617 638)
Employee related cost	(14 275 314)	(14 189 312)
Depreciation and amortisation	(18 084 823)	(11 154 464)
Finance cost	(225 231)	(286 481)

42. Comparative figures (continued)

Statement of financial position

Inventories comparative figure change as a result of errors that were corrected in the previous years.

Investment property comparative figure change as a result of errors that were corrected in the previous years.

Property, plant and equipment comparative figure change as a result of errors that were corrected in the previous years.

Heritage assets was previously included under investment properties and has been reclassified in the current and previous financial years.

Payables from exchange transactions has been reclassified with debtors with credit balances.
Leave and bonus provision were previously disclose under provision now correctly allocated to trade payables as short term obligations.

Consumer debtors comparative figure change as a result of errors that were corrected in the previous years.

Employee cost obligation was previously disclose under provisions and disclose as a individual line item in the current year. This is the short term portion of employee benefits.

Unspent conditional grants and receipts
Refer to error note above.

Provisions comparative figure change as a result of errors that were corrected in the previous years. Employee cost was included as provisions in the prior years.

Statement of Financial Performance

Interest received (trading) previously included under interest received - investment.

Fees earned comparative figure change as a result of errors that were corrected in the previous years

Commission received previously amounts were included in other income in the previous year.

Other income refer to commission received above.

Interest received - investment refer to interest received from trading above.

Government grants & subsidies comparative figure change as a result of errors that were corrected in the previous years.

Public contributions comparative figure change as a result of errors that were corrected in the previous years.

Impairment loss/Reversal of impairment was as a result of impairment on infrastructure assets and correction of errors in the previous year.

Employee related cost reclassification of finance cost by the nature of the expenditure. The discounting of long service awards is as a result of employee related cost and the expense must follow its nature.

Depreciation and amortisation comparative figure change as a result of errors that were corrected in the previous years.

Finance cost comparative figure change as a result of errors that were corrected in the previous years. There were also a reclassification of finance cost to employee related cost as per above.

Notes to the Financial Statements

43. Risk management

Financial risk management

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

Risk management plans are developed and monitored to ensure council's policies and systems are reviewed regulary to reflect changes in the municipality's operation.

The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

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.

Credit risk

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

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

Market risk

Interest rate risk

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

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

Notes to the Financial Statements

Figures in Rand	2015	2014

44. Going concern

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

The management of the municipality have concluded that the existence of a combination of circumstances represent a material uncertainty that casts significant doubt about the municipalities ability to continue as a going concern. nevertheless after making enquiries about considering the uncertainties described below, the management of the municipality have a reasonable expectation that the municipality will have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the annual financial statements of the municipality.

The following analysis supports the going concern assumption:
While the management of the municipality have instituted measures to preserve cash, control overheads, increase revenue and secure additional funding the following circumstances create material uncertainties over the future trading results and cash flows.
- The current liabilities ecxeed its current assets by R 9 174 850.
- The current economic enviroment is challenging and the entity has reported significant operating loss for the year.
- Management considers that the outlook present significant challenges in terms of enhancing the quality earnings, increaseing revenue volumes and well controlling input costs.
- The operational grants funding does not cover the entity's operating costs and without increasing the quality of revenue from operations continued deficits are likely.

45. Events after the reporting date

No significant events after the reporting date were identified.

46. Unauthorised expenditure

Opening balance	19 450 450	8 017 114
Add: Unauthorised Expenditure - current year	15 513 168	11 433 336
	34 963 618	**19 450 450**

47. Fruitless and wasteful expenditure

Interest and penalties on late payments	336 564	402 347
Interest on late payments on DBSA loan account	831	-
interest and penalties relating to VAT assessments	9 033	-
	346 428	**402 347**

48. Irregular expenditure

Opening balance	27 105 389	13 428 398
Add: Irregular Expenditure - current year	1 242 771	13 676 991
	28 348 160	**27 105 389**

Analysis of expenditure awaiting condonation per age classification

Not submitting the minimum quotations for acquiring goods and services	-	886 552
Procurement of goods and services where no contract is in place with the service provider	989 748	115 564
Tender process not followed	253 023	12 674 875
	1 242 771	**13 676 991**

Figures in Rand	2015	2014

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	11 000	11 000
Current year subscription / fee	500 000	450 000
Amount paid - current year	(511 000)	(450 000)
	-	**11 000**

Distribution losses - Water

Units loss in distribution	107 126 Kl	147 930 Kl
Unit price per kl:	3,64	1,96
	389 939	**290 002**

Distribution losses - Electricity

Units loss in distribution	5 627 026	5 455 481
Unit price per Kw	1,72	0,79
	9 678 485	**4 309 830**

Water losses were 14% comprising of bulk water reticulation losses. The persentages unaccounted for is water distributed from the treatement plant (reservoirs) topoints of conection. Lossess can mainly be attributed to burst and leakes in distrubution networksdue to delapidated infrastructure,and the inefficiencies in the metering system.

Electricity Losses were 30% consisting out of technical and non-technical losses. The technical losses of electricity are inherent to the supply of electricity via lines,conditions/ statusand aging of electricity networks, weather conditions and loads on the system. Non- technical losses is mainly due to theft, cable bridging, delapidated pre-paid meters.

Audit fees

Opening balance	3 303 042	2 132 417
Current year subscription / fee	2 176 399	1 736 998
Amount paid - current year	(740 474)	(566 373)
	4 738 967	**3 303 042**

PAYE and UIF

Current year subscription / fee	2 317 393	1 807 970
Amount paid - current year	(2 317 393)	(1 807 970)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	2 563 692	2 944 967
Amount paid - current year	(2 563 692)	(2 944 967)
	-	-

VAT

VAT receivable	3 930 606	4 313 454

VAT output payables and VAT input receivables are shown in note 10.

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

Notes to the Financial Statements

Figures in Rand	2015	2014

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
P Mgcera	938	-	938
GP Mc Carthy	1 292	-	1 292
JU Lottering	2 383	13 562	15 945
A Adams	1 784	-	1 784
Y Kerneels	322	-	322
	6 719	**13 562**	**20 281**

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PM Mgcera	1 025	-	1 025
OH Sehularo	308	-	308
GP Mc Carthy	1 737	2 087	3 824
A Visser	628	-	628
AS Adams	959	-	959
WH Cornellison	388	-	388
Y Kerneels	597	-	597
	5 642	**2 087**	**7 729**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2015	Highest outstanding amount	Aging (in days)
JU LOTERING	15 945	365
GP McCarthy	3 824	90
	19 769	**455**

30 June 2014	Highest outstanding amount	Aging (in days)
G McCarthy	4 906	210

Notes to the Financial Statements

Figures in Rand	2015	2014

50. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	1 865 761	3 034 330

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

51. 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 financial statements.

Reason for deviation	Amount
Sole Supplier of goods and services	271 681
Procurment that was deemed as being the most cost effective for the municipality.	71 431
Emergency procurment, based on the urgency and fiancial and health impact it might have in case of not procuring within a certain timeframe.	83 141
	426 253

52. Non compliance with MFMA and other regulations

Non-compliance with SCM regulation 6(3) & 4 (Not submitting quarterly SCM reports 30 days after the end of the Quater)

Non- complaince with section 52 (d) of the MFMA(Not submitting quarterly section 52 reports 30 days after the end of the Quater)

Non- complaince with section 75(1)(k) of the MFMA (Section 52 report not palced on municipal website)

Non- complaince with section 66 (Monthly salaries report not submitted to the mayor within legislative time frame)

Non-complaince with section 11 of the MFMA (Quarterly report on withdrawals not submitted)

Non-compliance with section 53(3)(a) (Performance agreements not made public)

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
Development Bank of South Africa								
Kgatelopele Municipality (NC086)	61006971	31/12/2016	3 034 330	-	1 168 286	1 866 044	-	-
			3 034 330	**-**	**1 168 286**	**1 866 044**	**-**	**-**
Total external loans								
Development Bank of South Africa			3 034 330	-	1 168 286	1 866 044	-	-
			3 034 330	**-**	**1 168 286**	**1 866 044**	**-**	**-**