Mpofana Municipality
Annual financial statements
for the year ended 30 June 2014

General Information

Members of Council	
Mayor	Cllr S Mpangase
Councillors	Cllr J Shabalala
	Cllr Z Dladla
	Cllr X Duma
	Cllr B Mhlanzi
	Cllr S Mhlongo
	Cllr K Denysschen
Grading of local authority	2
Accounting Officer	Max Moyo
Registered office	10 Claughton Terrace Mooi River 3300
Municipal Contact details	033 263 1221/7700 Mooi River 3300
Postal address	P O Box 47 Mooi River 3300
Bankers	First National Bank
Auditors	Auditor General

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page5.

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 annual financial statements set out on page 7 to 45, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by

Max Moyo
Municipal Manager

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 7 to 45, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 31 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these annual financial statements in accordance with Generally Recognised Accounting Practice (GRAP) in a manner required by local goverment : Municipal Finance Management Act, 2003 (Act No. 56 of 2003) including any intepretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

Municipal Manager:
Max Moyo
August 31, 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Inventories	8	244 114	253 154
Other receivables	9	497 477	830 059
VAT receivable	10	449 626	4 586 150
Prepayments		9 352	-
Consumer debtors	11	23 313 625	21 223 536
Financial assets - investments	6	11 848 205	11 952 270
Loans and receivables	7	447 382	417 343
Cash and cash equivalents	12	2 344 512	56 769
		39 154 293	**39 319 281**
Non-Current Assets			
Investment property	2	13 917 000	5 335 395
Property, plant and equipment	3	51 837 788	47 599 505
Intangible assets	4	93 217	55 908
		65 848 005	**52 990 808**
Total Assets		**105 002 298**	**92 310 089**
Liabilities			
Current Liabilities			
Finance lease obligation	13	512 087	1 533 340
Payables from exchange transactions	17	8 644 430	7 190 895
Consumer deposits	18	265 525	398 862
Employee benefit obligation	5	358 000	358 000
Unspent conditional grants and receipts	14	15 744 437	15 785 173
Provisions	15	7 906 304	7 479 873
Short term portion of long term liabilities	16	70 202	140 404
Bank overdraft	12	-	4 536 041
		33 500 985	**37 422 588**
Non-Current Liabilities			
Finance lease obligation	13	617 383	2 265 841
Employee benefit obligation	5	10 644 000	8 940 000
Annuity loan	16	20 789	1 819
		11 282 172	**11 207 660**
Total Liabilities		**44 783 157**	**48 630 248**
Net Assets		**60 219 141**	**43 679 841**
Net Assets			
Reserves			
Revaluation reserve		8 581 605	-
Accumulated surplus		51 637 536	43 679 841
Total Net Assets		**60 219 141**	**43 679 841**

* See Note 43

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Service charges	21	42 661 733	40 186 409
Rental of facilities and equipment	22	269 972	277 441
Licences and permits		3 027 189	2 701 770
Other income	27	1 344 855	445 666
Interest received - investment		2 352 112	7 160 600
Property rates	22	9 681 197	8 018 606
Property rates - penalties imposed		2 369 191	2 223 352
Royalties received		-	18 000
Government grants & subsidies	20	39 412 407	39 264 091
Fines		614 925	364 967
Total revenue		**101 733 581**	**100 660 902**
Expenditure			
Personnel	30	(25 169 606)	(23 536 237)
Remuneration of councillors	31	(1 902 610)	(1 818 371)
Depreciation and amortisation	33	(4 449 284)	(5 760 596)
Impairment loss/ Reversal of impairments	36	(29 727)	(421 118)
Finance costs	35	(579 109)	(1 671 180)
Debt impairment	29	(2 313 408)	(6 870 955)
Repairs and maintenance		(1 334 658)	(1 093 828)
Bulk purchases	28	(42 361 336)	(37 961 514)
Contracted services	34	(1 453 813)	(6 532 972)
Bank charges		(145 175)	(115 940)
General Expenses	32	(13 829 809)	(6 220 071)
Total expenditure		**(93 568 535)**	**(92 002 782)**
Operating surplus		**8 165 046**	**8 658 120**
Surplus for the year		**8 165 046**	**8 658 120**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	37 426 770	37 426 770
Adjustments			
Correction of errors	-	(2 405 049)	(2 405 049)
Balance at 01 July 2012 as restated*	**-**	**35 021 721**	**35 021 721**
Changes in net assets			
Surplus for the year	-	8 658 120	8 658 120
Total changes	-	8 658 120	8 658 120
Restated* Balance at 01 July 2013	**-**	**43 472 490**	**43 472 490**
Changes in net assets			
Surplus for the year	-	8 165 046	8 165 046
Revaluation surplus	8 581 605	-	8 581 605
Total changes	8 581 605	8 165 046	16 746 651
Balance at 30 June 2014	**8 581 605**	**51 637 536**	**60 219 141**

Note(s)

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		54 982 093	39 913 473
Grants		39 358 000	39 573 764
Interest income		2 352 112	7 160 600
Other receipts		1 004 266	813 329
Licences and permits		3 027 189	2 739 184
		100 723 660	90 200 350
Payments			
Employee costs		(26 328 610)	(25 143 558)
Suppliers		(56 546 206)	(59 047 975)
Finance costs		(208 638)	(1 142 158)
Taxes on surpluses		-	(887 235)
Other cash item		955 533	(3 154 855)
		(82 127 921)	(89 375 781)
Net cash flows from operating activities	39	**18 595 739**	**824 569**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(9 262 471)	(12 101 381)
Proceeds from sale of property, plant and equipment	3	648 066	-
Purchase of other intangible assets	4	(153 500)	(10 900)
Proceeds from sale of other intangible assets	4	13 338	-
Proceeds from sale of financial assets - investments		104 065	6 321 800
Purchase of loans and receivables		(30 039)	(86 925)
Net cash flows from investing activities		**(8 680 541)**	**(5 877 406)**
Cash flows from financing activities			
Movement in annuity loan		(51 232)	(119 689)
Finance lease payments		(3 040 182)	(851 817)
Net cash flows from financing activities		**(3 091 414)**	**(971 506)**
Net increase/(decrease) in cash and cash equivalents		**6 823 784**	**(6 024 343)**
Cash and cash equivalents at the beginning of the year		(4 479 272)	1 545 071
Cash and cash equivalents at the end of the year	12	**2 344 512**	**(4 479 272)**

* See Note 43

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	40 692 669	1 967 000	**42 659 669**	42 661 733	**2 064**	
Rental of facilities and equipment	-	2 900 000	**2 900 000**	269 972	**(2 630 028)**	
Licences and permits	2 100 000	(200 000)	**1 900 000**	3 027 189	**1 127 189**	
Other income	200 000	-	**200 000**	1 344 855	**1 144 855**	
Interest received - investment	1 000 000	1 040 120	**2 040 120**	(1 569 000)	**(3 609 120)**	
Total revenue from exchange transactions	**43 992 669**	**5 707 120**	**49 699 789**	**45 734 749**	**(3 965 040)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	11 489 259	(1 569 000)	**9 920 259**	9 681 197	**(239 062)**	
Property rates - penalties imposed	50 000	2 421 240	**2 471 240**	2 369 191	**(102 049)**	
Government grants & subsidies	39 407 000	291 000	**39 698 000**	39 412 407	**(285 593)**	
Transfer revenue						
Fines	300 000	-	**300 000**	614 925	**314 925**	
Total revenue from non-exchange transactions	**51 246 259**	**1 143 240**	**52 389 499**	**52 077 720**	**(311 779)**	
Total revenue	**95 238 928**	**6 850 360**	**102 089 288**	**97 812 469**	**(4 276 819)**	
Expenditure						
Personnel	(24 866 400)	(908 000)	**(25 774 400)**	(25 169 606)	**604 794**	
Remuneration of councillors	(1 956 000)	-	**(1 956 000)**	(1 902 610)	**53 390**	
Depreciation and amortisation	(5 255 000)	-	**(5 255 000)**	(4 449 284)	**805 716**	
Impairment loss/ Reversal of impairments	(13 223 000)	-	**(13 223 000)**	(29 727)	**13 193 273**	
Finance costs	(250 000)	-	**(250 000)**	(579 109)	**(329 109)**	
Debt impairment	-	-	**-**	(2 313 408)	**(2 313 408)**	
Repairs and maintenance	(2 150 000)	-	**(2 150 000)**	(1 334 658)	**815 342**	
Bulk purchases	(46 512 000)	-	**(46 512 000)**	(42 361 336)	**4 150 664**	
Contracted Services	(3 764 000)	(1 500 000)	**(5 264 000)**	(1 453 813)	**3 810 187**	
Bank charges	(120 000)	(8 500)	**(128 500)**	(145 175)	**(16 675)**	
General Expenses	(19 487 928)	(2 006 000)	**(21 493 928)**	(13 829 809)	**7 664 119**	
Total expenditure	**(117 584 328)**	**(4 422 500)**	**(122 006 828)**	**(93 568 535)**	**28 438 293**	
Surplus before taxation	**(22 345 400)**	**2 427 860**	**(19 917 540)**	**4 243 934**	**24 161 474**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(22 345 400)**	**2 427 860**	**(19 917 540)**	**4 243 934**	**24 161 474**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Standards and interpretations effective and adopted in the current year

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

Standard	Interpretation	Effective date
GRAP 21	Impairment of non-cash-generating assets	01 April 2012
GRAP 23	Revenue from non-exchange transactions	01 April 2012
GRAP 24	Presentation of budget information in the financial statement	01 April 2012
GRAP 26	Impairment of cash-generating assets	01 April 2012
GRAP 103	Heritage assets	01 April 2012
GRAP 104	Financial instruments	01 April 2012
IGRAP1	Applying the probability test on initial recognation	01 July 2013

The adoption of the above standards of GRAP did not have a significant impact in the operations of the municipality.

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and loans and receivables

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% 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.

Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables 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.

Provisions

1.3 Going concern assumption (continued)

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.

1.4 Standards, amendments to standards and interpretations issued but not yet effective

Standards, amendments to standards and interpretations issued but not yet effective are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of milk is determined based on market prices in the local area.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of standards, amendments to standards and interpretations issued but not yet effective or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a standards, amendments to standards and interpretations issued but not yet effective is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a standards, amendments to standards and interpretations issued but not yet effective measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on standards, amendments to standards and interpretations issued but not yet effective where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

1.5 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
- 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 fair value.

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.

Revaluation model

Investment property is measured at fair value and valuation are performed every 3 years.

Depreciation is not provided for as fair value model is used.

Accounting Policies

1.5 Investment property (continued)

Item	Useful life
Property - land	indefinite

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

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

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

1.6 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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 in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	**Average useful life**
Buildings	5 - 25 years
Infrastructure	
• Electricity	3 - 30 years
• Roads	3 - 40 years
• Solid Waste disposal	10 years

1.6 Property, plant and equipment (continued)

Other property, plant and equipment

• Machinery and equipment	3- 10 years
• Furniture and equipment	3 - 5 years
• Computer equipment	3 - 5 years
Finance lease assets	
• Office equipment	5 years
• Transport	3 - 5 years
Landfill site	5 years

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

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

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

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

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

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

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

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

The municipality has a landfill site which it is obligated to rehabilitate at the end of its useful life.

1.8 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.

1.8 Intangible assets (continued)

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.

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Computer software, other	3 years

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

1.9 Financial instruments

1.10 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.

1.10 Leases (continued)

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

Finance leases - lessee

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

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

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

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

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment.

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 income.

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

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

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

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.

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

1.11 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.

Accounting Policies

1.11 Inventories (continued)

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

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

1.12 Impairment of cash-generating assets and non-cash generating assets

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

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset.

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.

- Restoration cost approach - Under this approach, 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.

- 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 with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the statement of financial performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

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

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.14 Employee benefits

1.15 Provisions and contingencies

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the financial period end.

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.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the relevant notes to the financial statements.

1.16 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

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 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 statement of financial position date. Stage of completion is determined by services performed to date as a percentage of total services to be performed .

Contract revenue comprises:

Accounting Policies

1.16 Revenue from exchange transactions (continued)

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Interest

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

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Measurement

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

1.17 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

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

Fines

Revenue from the issuing of fines 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.

Government grants

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

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

Other grants and donations

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

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.19 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

1.20 Comparative figures

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

Accounting Policies

1.21 Unauthorised expenditure

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

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

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure 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 municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

1.25 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.26 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the municipality any one or more related parties, and those transactions were not within:
- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the municipality's legal mandate; further details about those transactions are disclosed in the notes to the financial statements.

1.27 Going concern assumption

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

1.28 Budget information

Municipalities 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.

Accounting Policies

1.28 Research and development expenditure (continued)

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

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

2. Investment property

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	13 917 000	-	13 917 000	5 335 395	-	5 335 395

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Investment property	5 335 395	8 581 605	13 917 000

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	5 335 395	5 335 395

Fair value of investment properties	13 917 000	13 917 000

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

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

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	3 318 590	-	3 318 590	3 318 590	-	3 318 590
Buildings	6 406 377	(5 020 940)	1 385 437	6 406 377	(4 708 795)	1 697 582
Infrastructure	83 004 532	(45 602 574)	37 401 958	66 979 324	(44 063 161)	22 916 163
Other property, plant and equipment	3 589 902	(2 349 644)	1 240 258	6 587 792	(4 986 458)	1 601 334
Capital work in progress	4 758 917	-	4 758 917	12 595 583	-	12 595 583
Finance lease assets	7 070 189	(4 743 633)	2 326 556	7 070 189	(3 474 053)	3 596 136
Landfill site	7 031 082	(5 625 010)	1 406 072	7 031 082	(5 156 965)	1 874 117
Total	**115 179 589**	**(63 341 801)**	**51 837 788**	**109 988 937**	**(62 389 432)**	**47 599 505**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	3 318 590	-	-	-	-	-	3 318 590
Buildings	1 697 582	-	-	-	(289 540)	(22 605)	1 385 437
Infrastructure	22 916 163	-	(82 200)	16 337 299	(1 763 019)	(6 285)	37 401 958
Other property, plant and equipment	1 601 334	761 838	(565 866)	-	(556 211)	(837)	1 240 258
Capital work in progress	12 595 583	8 500 633	-	(16 337 299)	-	-	4 758 917
Finance lease assets	3 596 136	-	-	-	(1 269 580)	-	2 326 556
Landfill site	1 874 117	-	-	-	(468 045)	-	1 406 072
	47 599 505	**9 262 471**	**(648 066)**	**-**	**(4 346 395)**	**(29 727)**	**51 837 788**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	3 318 590	-	-	-	-	-	3 318 590
Buildings	2 008 800	-	-	-	(309 634)	(1 584)	1 697 582
Infrastructure	25 751 417	-	-	-	(2 550 844)	(284 410)	22 916 163
Other property, plant and equipment	2 002 948	334 444	-	-	(600 934)	(135 124)	1 601 334
Capital work in progress	1 907 091	10 688 492	-	-	-	-	12 595 583
Finance lease assets	3 854 218	1 078 445	-	-	(1 336 527)	-	3 596 136
Landfill site	2 809 545	-	-	-	(935 428)	-	1 874 117
	41 652 609	**12 101 381**	**-**	**-**	**(5 733 367)**	**(421 118)**	**47 599 505**

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.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

4. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	24 112	69 105	93 217	205 832	(149 924)	55 908

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Computer software, other	55 908	153 500	(13 338)	(89 534)	(13 319)	93 217

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Depreciation**	**Total**
Computer software, other	72 237	10 900	(27 229)	55 908

5. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its qualifying employees.

Post-retirement medical aid benefits are offered to qualifying employees by subsidising a portion of the medical aid contribution after retirement.

The municipality is committed to pay subsidies broadly as follows:
- 60% to current employees
- 60%/100% to current continuation retirees
- Widow(er)s and orphans of current employees are entitled to continue at 60% or 100%, the subsidy upon the death of the pensioner.

Long service bonus awards

The long service bonus awards consist of an obligation to pay out bonus in the year of the employee attaining the required service. This obligation represents a liability to the municipality and the value is represented by the present value of the total long service bonus awards expected to become payable under the municipality’s current policy.

The municipality offers bonuses for every five years of completed service from ten years to forty five years. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. It has been assumed that in all cases, employees choose to exercise the option to wholly convert their accumulated leave days bonus into cash.

The most recent actuarial valuation was performed for the above mentioned obligations on 30 June 2013 by One Pangaea Financial using Projected Unit Credit Method.

The full obligation has been recognised as at the date of the statement of financial position.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Employee benefit obligations (continued)

The aggregate amounts recognised in the statement of financial position are as follows:

	2014	2013
Carrying value		
Opening balance	(9 298 000)	(6 784 000)
Current service cost	(690 000)	(431 000)
Interest cost	(661 000)	(547 000)
Benefit payments	358 000	307 000
Actuarial gains/(losses)	(711 000)	(1 843 000)
	(11 002 000)	**(9 298 000)**

	2014	2013
Non-current liabilities	(10 644 000)	(8 940 000)
Current liabilities	(358 000)	(358 000)
	(11 002 000)	**(9 298 000)**

	2014	2013
Net expense recognised in the statement of financial performance		
Current service cost	690 000	431 000
Interest cost	661 000	547 000
Actuarial losses	711 000	1 843 000
Curtailment or settlement	(358 000)	(307 000)
	1 704 000	**2 514 000**

	2014	2013
5.1. Post retirement medical aid		
Opening balance	(8 156 000)	(5 981 000)
Current service cost	(525 000)	(314 000)
Interest cost	(581 000)	(482 000)
Benefit payments	274 000	274 000
Actuarial gains/(losses)	(574 000)	(1 653 000)
	(9 562 000)	**(8 156 000)**

	2014	2013
Non-current liabilities	(9 288 000)	(7 882 000)
Current liabilities	(274 000)	(274 000)
	(9 562 000)	**(8 156 000)**

	2014	2013
Net expense recognised in the statement of financial performance		
Current service costs	525 000	324 000
Interest cost	581 000	482 000
Actuarial losses	574 000	1 653 000
Curtailment or settlement	(274 000)	(274 000)
	1 406 000	**2 185 000**

	2014	2013
5.2. Long service bonus awards		
Opening balance	(11 442 000)	(803 000)
Current service cost	(165 000)	(117 000)
Interest cost	(80 000)	(65 000)
Benefit payments	(84 000)	33 000
Actuarial gains/(losses)	(137 000)	(190 000)
	(11 908 000)	**(1 142 000)**

	2014	2013
Non-current liabilities	(1 356 000)	(1 058 000)
Current liabilities	(84 000)	(84 000)
	(1 440 000)	**(1 142 000)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance		
Current service costs	165 000	117 000
Interest cost	80 000	65 000
Actuarial losses	137 000	190 000
Curtailment or settlement	(84 000)	(33 000)
	298 000	**339 000**

The municipality became aware of the above obligations in the current year. They were previously not recognised. Refer note 43.

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.63%	7.25%
Health care cost inflation rate	8.66%	6.75%
Consumer price index	7.16%	6.25%
Salary increase rate	7.15%	7.15%

Retirement age		
Female	63	63
Male	63	63
Number of eligible members	70	66
Number of pensioners	9	9

Other assumptions - post retirement medical aid

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	1 843 000	1 178 000
Effect on defined benefit obligation	11 479 000	8 082 000
	13 322 000	**9 260 000**

Other assumptions - long service bonus awards

The valuation bases assumed that the salary inflation rate (which manifest its self as an annual increase in employees' salaries which determine the bonuses payable) will be 0,09% less than the corresponding discount rate, in the long term. The effect of 1% increase and decrease in the salary inflation rate is as follows:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	307 000	245 000
Effect on the employee benefit obligation	1 283 000	1 065 000
	1 590 000	**1 310 000**

Figures in Rand	2014	2013

5. Employee benefit obligations (continued)

Defined contribution plan

Certain municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality. Information from the schemes as a whole is included below.

Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALA) Provident and Retirement Funds. All contributions have been included in the employee related cost note.

SUPERANNUATION FUND

As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 121,7 million more than the actuarial value of liabilities for service of members to that date and for pensioners, made up as follows:

- Surplus of R 210 million in respect of pensioners (funding level 119,4%)
- Deficit of R 88,3 million in respect of members (funding level 95%)
- The fund was thus 104% funded
- The fund did not hold an investment reserve
- The total contribution rate payable,including the surcharge by and on behalf of members,exceeded that required for future service by 1,41 % of members pensionable emoluments
- An additional contribution by way of a surcharge amounting to 6% of salaries is currently in place to fund the deficit. The surcharge have been reduce to 4,5% with effect from 1 July 2007

RETIREMENT FUND

As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 140,9 million more that the actuarial value of liabilities for services of members to that date and for pensioners made up as follows:
- Surplus of R 63,4 million in respect of pensioners (funding level 116,2%)
- Deficit of R204,3 million in respect of members (funding level 73%)
- The fund was thus 87,7% funded
- The fund did not hold an investment reserve
- The total contribution rate payable (including the surcharge of 14 % payable jointly by pre-1 July 2002 members and their employers on their behalf) exceeded that required for future service by 12,59% of members' pensionable emoluments. This should be sufficient , provided that salary increases do not exceed CPIX plus 0,5 %.

6. Financial assets - Investments

	2014	2013
Call investments		
FNB Investment call account - 62172498183	226 947	218 988
FNB Investment Call account - 62172488085	559 604	539 977
FNB Investment call account - 62036716746	39 402	39 011
FNB Investment call account - 62172493935	85 692	568 744
FNB Investment call account - 62066847553	2 165	2 144
FNB Investment call account	-	1
FNB Investment call account	-	8
FNB Investment call account - 62187203957	7 350 637	7 091 105
FNB Investment call account - 62134172890	46 206	44 851
FNB Investment call account -62141712001	446 739	431 049
FNB Investment call accont - 62173946040	32 884	12 626
FNB Investment call account - 62237621760	2 097 636	2 024 182
ABSA Investment account - 6303799366	960 292	959 313
FNB Investment call account	(79)	20 195
FNB Investment call accont	79	79
	11 848 204	**11 952 273**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

6. Financial assets - Investments (continued)

7. Loans and receivables

Current assets		
Loans and receivables	447 382	417 343

8. Inventories

Consumable stores	244 114	253 154

9. Other receivables

Sundry debtors	497 477	830 059

Sundry debtors relate to the following:

- Salary overpayment made to Council and it relate to prior years.

10. VAT receivable

VAT	449 626	4 586 150

11. Consumer debtors

Gross balances		
Rates	20 881 241	30 535 509
Electricity	2 488 896	9 374 728
Refuse	6 538 053	7 548 818
Sundry debtors	29 485 953	7 931 468
	59 394 143	**55 390 523**
Less: Allowance for impairment		
Rates	(12 181 259)	(22 903 233)
Electricity	(1 205 604)	(5 236 529)
Refuse	(3 814 032)	(6 027 225)
Sundry debtors	(18 879 623)	-
	(36 080 518)	**(34 166 987)**
Net balance		
Rates	8 699 982	7 632 276
Electricity	1 283 292	4 138 199
Refuse	2 724 021	1 521 593
Sundry debtors	10 606 330	7 931 468
	23 313 625	**21 223 536**

Figures in Rand	2014	2013

11. Consumer debtors (continued)

Rates		
0 to 30days	691 545	600 223
31 - 60 days	441 192	415 033
61 - 90 days	398 871	327 762
91 - 120 days	7 168 374	5 670 699
	8 699 982	**7 013 717**

Electricity		
Current (0 -30 days)	727 198	3 425 565
31 - 60 days	363 640	274 495
61 - 90 days	270 388	212 724
91 - 120 days	698 793	460 901
	2 060 019	**4 373 685**

Refuse		
Current (0 -30 days)	211 812	163 199
31 - 60 days	194 735	142 634
61 - 90 days	189 128	137 030
91 - 120 days	2 128 346	1 286 466
	2 724 021	**1 729 329**

Sundry debtors		
Current (0 -30 days)	390 079	341 683
31 - 60 days	384 212	337 542
61 - 90 days	376 013	332 687
91 - 120 days	11 134 754	7 094 912
	12 285 058	**8 106 824**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(34 166 987)	27 296 032
Contributions to allowance	(1 913 531)	(34 166 987)
Reversal of allowance	-	(27 296 032)
	(36 080 518)	**(34 166 987)**

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired.As per the review of the debtors database some debtors that are above 3 months were not considered to be doubtful. At 30 June 2014, R25,769,082 - (2013: R21,223,536 -).

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

Consumer debtors impaired

As of 30 June 2014, consumer debtors of (R36 080 518) - (2013: R 34 166 987) were impaired and provided for.

The ageing of these loans is as follows:

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Figures in Rand	2014	2013

12. Cash and cash equivalents (continued)

Cash on hand	800	800
Bank balances	2 343 712	55 969
Bank overdraft	-	(4 536 041)
	2 344 512	**(4 479 272)**
Current assets	2 344 512	56 769
Current liabilities	-	(4 536 041)
	2 344 512	**(4 479 272)**

13. Finance lease obligation

Minimum lease payments due		
- within one year	1 217 805	1 914 977
- in second to fifth year inclusive	1 058 201	2 707 249
	2 276 006	4 622 226
less: future finance charges and Maintanance	(1 146 536)	512 087
Present value of minimum lease payments	**1 129 470**	**5 134 313**
Present value of minimum lease payments due		
- within one year	512 087	1 533 340
- in second to fifth year inclusive	617 382	2 265 841
	1 129 469	**3 799 181**

The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date. Contingent rents have been recognised as an expense in the statement of financial performance. The leased assets are indicated in note 3
The leased assets are indicated in Note 3.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Municipal Systems Improvement Grant	-	252 011
Municipal Assistance Grant	-	862 577
Townview housing project grant	8 168 481	8 168 481
Cragieburn housing project grant	5 840 388	5 955 679
Financial management grant	15	268 712
Municipal Infrastructure Grant	1 733 398	-
Expanded Public Works Programme Grant	2 155	161 713
Sports and recreation grant	-	116 000
	15 744 437	**15 785 173**

The nature and extent of government grants recognised in the annual 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.

Municipal Systems Improvement Grant

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

14. Unspent conditional grants and receipts (continued)

Balance at the beginning of the year	252 011	-
Additions during the year	890 000	800 000
Income recognition during the year	(1 142 011)	(547 989)
	-	**252 011**

Municipal Assistance Grant

Balance at the beginning of the year	862 577	966 738
Additions during the year	-	600 000
Income recognition during the year	(862 577)	(704 161)
	-	**862 577**

Townview housing project grant

Balance at the beginning of the year	8 168 481	8 168 481

Cragieburn housing project grant

Balance at the beginning of the year	5 955 679	6 260 824
Additions during the year	-	1 006 482
Income recognition during the year	(115 291)	(1 311 627)
	5 840 388	**5 955 679**

Financial management grant

Balance at the beginning of the year	268 712	-
Additions during the year	1 650 000	1 500 000
Income recognition during the year	(1 918 697)	(1 231 288)
	15	**268 712**

Municipal Infrastructure Grant

Balance at the beginning of the year	-	177 689
Additions during the year	11 621 000	11 728 000
Income recognition during the year	(9 887 602)	(11 905 689)
	1 733 398	**-**

Expanded Public Works Programme grant

Balance at the beginning of the year	161 713	-
Additions during the year	1 000 000	1 000 000
Income recognition during the year	(1 159 558)	(627 237)
Reversal of prior period receivable	-	(211 050)
	2 155	**161 713**

Sports and recreation grant

Balance at the beginning of the year	116 000	-
Additions during the year	150 000	150 000
Income recognition during the year	(266 000)	(34 000)
	-	**116 000**

15. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	5 781 998	27 082	-	5 809 080
Provision for leave pay	1 697 875	-	-	1 697 875
	7 479 873	**27 082**	**-**	**7 506 955**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	8 507 609	723 147	(3 448 758)	5 781 998
Provision for leave pay	1 728 749	1 102 617	(1 133 491)	1 697 875
	10 236 358	**1 825 764**	**(4 582 249)**	**7 479 873**

Landfill site
The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be paid by 30 June 2015.

A discounting factor based on prime interest and adjustment for municipal specific risk was applied.

Leave pay
The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

16. Annuity loan

	2014	2013
Annuity Loans		
DBSA Loans	90 991	142 223
Less: Current portion transferred to current liabilities	(70 202)	(140 404)
Long term portion	**20 789**	**1 819**

The municipality received five loans from the Development Bank of Southern Africa (DBSA) to fund water, electricity and sewerage expenditure.The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however, all loans have different fixed interest rates. Interest rates are between 14,50% to 16,32% per annum, payable every six months.

Three of the five loans received were recoverable from uMgungundlovu District Municipality as the water and sanitation function was ceded to the District Municipality. Refer to the loans and receivables note 7.

17. Payables from exchange transactions

	2014	2013
Trade payables	1 889 659	127 569
Accruals - Eskom bulk purchases	1 928 081	2 290 665
Debtor payments received in advance	4 193 577	4 139 548
Accruals - uMgungundlovu District Municipality	605 385	605 385
Unallocated receipts	27 728	27 728
	8 644 430	**7 190 895**

Trade payables are normally settled within 30 days.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

18. Consumer deposits

Electricity	221 074	221 574
Water	-	145 737
Other	44 451	31 551
	265 525	**398 862**

IInterest is not paid to consumers when deposits are refunded and hence it is not accrued on consumer deposits value.

19. Revenue

Service charges	42 661 733	40 186 409
Government grants & subsidies	39 412 407	39 264 091
Property rates	9 681 197	8 018 606
Interest received - investment	2 352 112	7 160 600
Rental of facilities and equipment	269 972	277 441
Licences and permits	3 027 189	2 701 770
Other income	1 344 855	445 666
Fines	614 925	364 967
Property rates - penalties imposed	2 369 191	2 223 352
Royalties received	-	18 000
	101 733 581	**100 660 902**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	42 661 733	40 186 409
Interest received - investment	2 352 112	7 160 600
Rental of facilities and equipment	269 972	277 441
Licences and permits	3 027 189	2 701 770
Other income	1 344 855	445 666
	49 655 861	**50 771 886**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	9 681 197	8 018 606
Property rates - penalties imposed	2 369 191	2 223 352
Royalties received	-	18 000
Transfer revenue		
Government grants & subsidies	39 412 407	39 264 091
Fines	614 925	364 967
	52 077 720	**49 889 016**

Figures in Rand	2014	2013

20. Government grants and subsidies included in revenue

Operating grants		
Equitable share	23 278 000	21 925 000
Library	705 000	-
Museum grant	284 000	134 000
Small town grant	862 577	302 679
Municipal assistance grant	-	401 482
Municipal system improvement grant (MSIG)	1 142 011	547 989
Finance management grant (FMG)	1 918 697	1 231 288
LGSETA	13 074	-
Department of trade and industry (DTI) subsidy	997 845	-
Expanded public works programme grant	-	838 287
Sports and recreation subsidy	266 000	34 000
Library subsidy	120 000	336 000
Provincial library subsidy	-	296 050
	29 587 204	26 046 775
Capital grants		
Municipal infrastructure grant (MIG)	9 709 912	11 905 689
Cragieburn housing project grant	115 291	1 311 627
	9 825 203	13 217 316
	39 412 407	**39 264 091**

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

Museum subsidy
This subsidy has been granted to the municipality for operational upkeep of the museum in the area.

Public health subsidy
This subsidy was granted to the municipality by the Department of Public health for the operational costs of running the clinic.

Municipal infrastructure grant (MIG)
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

Expanded public works programme (EPWP)
This subsidy is provided by the Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

Small town grant
This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view of developing the town by improving its economic state and attracting investment.

21. Service charges

Sale of electricity	39 984 627	37 690 228
Refuse removal	2 677 106	2 496 181
	42 661 733	**40 186 409**

Figures in Rand	2014	2013

22. Property rates

Rates received

Residential	7 202 667	8 470 957
Commercial	2 293 247	1 216 172
State	101 207	53 404
Municipal	5 795 356	5 361 279
Hospitality and tourism	959 795	-
Communal property land	189 661	-
Public benefit organisation	612 441	-
Less: Income forgone (Rate Rebate)	(7 473 177)	(7 083 206)
	9 681 197	8 018 606
Property rates - penalties imposed	2 369 191	2 223 352
	12 050 388	**10 241 958**

Valuations

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 01 July 2012. The following general rates are applied:

-Residential	R	- R	2.5700
-Agricultural	R	- R	0.2700
-Commercial	R	- R	1.2800
-Public Service Infrastructure	R	- R	0.3167
-Public Benefit Organisation	R	- R	0.6121

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties, 30% on public service infrastructure and 20% on public benefit organisation. In the 2011/2012 year rebates of 30% were granted to rates on residentail, 55% agricultural properties.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll:

Property valuations

Agricultural	1 822 916 000	1 822 916 000
Agricultural smallholding	103 950 000	103 950 000
State	90 780 000	90 780 000
Industrial	2 100 000	2 100 000
Communal property and land reform	70 820 000	70 820 000
Municipal	9 284 000	9 284 000
Public service infrastructure	27 023 200	27 023 200
Residential and Residential hospitality	755 903 900	755 903 900
Sectional title - Commercial	2 200 000	2 200 000
Sectional title - Residential	6 580 000	6 580 000
State owned	28 856 000	28 856 000
Place of worship	23 550 000	23 550 000
Public benefit organisation	148 460 000	148 460 000
Business and commercial	194 049 000	194 049 000
Tourism and hospitality	154 335 000	154 335 000
	3 440 807 100	**3 440 807 100**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

23. Investment revenue

Interest revenue		
Bank	420 468	615 333
Interest charged on consumer debtors	1 681 171	6 468 499
Interest received - other	250 473	76 768
	2 352 112	**7 160 600**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Rental income

Premises		
Premises	241 529	239 357
Venue hire	28 443	38 084
	269 972	**277 441**

25. Other revenue

Other income	1 344 855	445 666

26. Donations income

Donations income	-	18 000

300 black chairs to the value of R18 000 were donated by SASSA Regional office to the municipality during the prior financial year.

27. Other income

Other income	990 387	398 615
Income from N3TC	327 744	-
Cemetery fee income	26 724	47 051
	1 344 855	**445 666**

28. Bulk purchases

Electricity	42 361 336	37 961 514

29. Debt impairment

Contributions to debt impairment provision	1 913 531	6 870 955
Debts impaired	399 877	-
	2 313 408	**6 870 955**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

30. Employee related costs

Basic	15 873 017	13 165 086
Cellphone allowances	36 300	92 750
Bonus	1 034 733	887 765
Medical aid - company contributions	1 192 834	1 076 966
UIF	147 773	131 613
SDL	183 463	175 044
Leave pay provision charge	399 349	(30 874)
Long service awards	298 000	339 000
Post employment medical aid	-	2 175 000
Defined contribution plans	3 283 280	2 793 487
Travel, motor car, accommodation, subsistence and other allowances	1 772 549	1 152 549
Overtime payments	560 901	1 112 382
Acting allowances	48 643	103 003
Housing benefits and allowances	82 640	34 610
Redemption leave	247 539	319 840
Other payroll levies	8 585	8 016
	25 169 606	**23 536 237**

Remuneration of municipal manager

Annual Remuneration	509 275	335 265
Car, travel accommodation allowance and other	174 863	167 342
	684 138	**502 607**

Remuneration of chief finance officer

Annual Remuneration	291 646	291 164
Car, travel accommodation allowance and other	181 586	110 102
	473 232	**401 266**

Remuneration of Director Corporate services

Annual Remuneration	385 393	348 899
Car, travel accommodation allowance and other	269 851	241 000
	655 244	**589 899**

Remuneration of Director Technical services

Annual Remuneration	87 500	204 806
Car, travel accommodation allowance and other	23 042	160 655
Acting allowance	-	43 690
	110 542	**409 151**

Remuneration of Director Social services

Annual Remuneration	336 056	204 806
Car, travel accommodation allowance and other	276 991	117 543
	613 047	**322 349**

Remuneration Acting Chief Financial Officer

Annual Remuneration	-	-
Travel allowance	-	21 500

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

30. Employee related costs (continued)

	-	**21 500**

31. Remuneration of councillors

Mayor	470 963	458 358
Councillors	868 068	791 379
Councillors' pension contribution	127 276	128 376
Councillors' allowances	436 303	440 258
	1 902 610	**1 818 371**

32. General expenses

Advertising	227 704	115 101
Auditors remuneration	984 924	843 359
Cleaning	15 483	8 381
Computer expenses	803 994	109 796
Consulting and professional fees	1 051 486	-
Consumables	118 630	45 135
Deed transfers	9 792	10 206
Entertainment	98 942	19 850
Pauper burials	10 995	11 318
Hire	224 473	-
Insurance	247 460	285 413
Conferences and seminars	59 591	33 083
Valuation expenses	246 866	205 234
Lease rentals on operating lease	3 600	-
Medical expenses	62 635	61 250
Motor vehicle expenses	-	26 059
Pensioners medical aid	1 697 033	311 309
Fuel and oil	474 492	506 705
Postage and courier	49 657	49 738
Printing and stationery	168 407	188 672
Sundry costs	9 424	1 886 349
Software expenses	1 300	-
Subscriptions and membership fees	-	957 618
Telephone and fax	445 716	417 579
Training	368 215	46 865
Travel - local	7 119	22 142
Service connections	460 684	265 757
Assets expensed	185 048	(7 004)
Electricity	680 906	320 639
Uniforms	335 308	105 912
Expense 1	27 082	(3 448 758)
Rental general	140 391	134 273
Legal fees	813 579	-
Public participation	60 750	-
Grant expenditure	2 015 234	890 072
Publications	91 069	32 769
Loss on asset disposal	661 403	-
Team building workshops	-	18 458
Accommodation	-	32 500
Legal expenses	114 721	122 357
Other expenses	855 696	1 591 934
	13 829 809	**6 220 071**

33. Depreciation and amortisation

	2014	2013
Property, plant and equipment	4 375 658	5 733 367
Intangible assets	73 626	27 229
	4 449 284	**5 760 596**

34. Contracted services

	2014	2013
Information Technology Services	(789 514)	3 365 611
Fleet Services	2 243 327	3 167 361
	1 453 813	**6 532 972**

35. Finance costs

	2014	2013
Provision for landfill site (unwinding)	27 082	723 147
Interest on finance leases	370 471	529 022
Interest on bank overdraft	-	24 408
Interest on non-current borrowings	20 356	31 180
Interest on overdue accounts	161 200	363 423
	579 109	**1 671 180**

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2013: R -).

36. Impairment of assets

	2014	2013
Impairments		
Property, plant and equipment	29 727	421 118

Impairment losses are calculated based on the result of a physical verification conducted during which a condition assessment is performed.

37. Auditors' remuneration

	2014	2013
Fees	984 924	843 359

38. Operating lease

The municipality had the following outstanding commitments under operating leases in the prior year:

	2014	2013
Operating leases - lessee		
Within one year	111 220	175 739
In the second to fifth year	300 280	330 502
	411 500	**506 241**

The operating lease payments represented rentals payable by the municipality for certain of its fleet vehicles, and clinic.

Operating leases - lessor
The municipality has low cost houses that are leased to certain staff/members. Lease rentals are based on a percentage of the lessee's income levels. These leases are cancellable at any time by either party provided that one month's notice is given. There is no fixed lease period.

Figures in Rand	2014	2013

39. Cash generated from operations

	2014	2013
Surplus	8 165 046	8 658 120
Adjustments for:		
Depreciation and amortisation	4 449 284	5 760 596
Finance costs - Finance leases	370 471	529 022
Impairment deficit	29 727	421 118
Debt impairment	2 313 408	6 870 955
Movements in retirement benefit assets and liabilities	1 704 000	2 514 000
Movements in provisions	426 431	(2 756 485)
Opening balance adjustment	(207 390)	-
Changes in working capital:		
Inventories	9 040	(208 792)
Consumer debtors	(4 403 497)	(16 046 247)
Other receivables from non-exchange transactions	332 582	(71 467)
Prepayments	(9 352)	275 413
Payables from exchange transactions	1 453 538	137 919
VAT	4 136 524	(5 473 385)
Unspent conditional grants and receipts	(40 736)	211 441
Consumer deposits	(133 337)	2 361
	18 595 739	**824 569**

40. Commitments

Authorised capital expenditure

Approved and contracted for		
• Phumlaas Bus/Taxi Route	-	5 760 032
• Bruntville Clinic Bu/Taxi Route	-	656 600
• Urban Road CBD	15 500 000	-
	15 500 000	**6 416 632**

Operating Contracts		
• Contracts due within 1 Year	4 489 223	-
• Contracts due 2 to 5 years	5 026 724	-
	9 515 947	**-**

Figures in Rand	2014	2013

41. Contingencies

Contingencies arising from pending litigation on wage curve agreement

On 21 April 2010 SALGA signed the “Categorisation and job evaluation wage curves collective agreement” (wage curve agreement) with IMATU and SAMWU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees’ jobs per the TASK job evaluation system.

Subsequent to the signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. At the end of the financaial year this matter was not resolved and has been resolved subsequent to year end with no costs to the Municipality.

SALA pension fund	-	59 700

This matter has been resolved subsequent to year-end.

42. Change in estimate

Change in accounting policy

The municipality adopted the following Accounting Standard for the first time during the financial year 2013/14 in order to comply with basis of preparation of the Annual Financial Statements as disclosed in Accounting policies.

GRAP - 16(37)

The standard of GRAP on Accounting Policies, Change in estimates and errors states that a voluntary change in accounting policy shall be made only if the change result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, performance or cash flows. It is highly unlikely that a change from the fair value model will result in a more relavant presentation.

Investment property previosly on cost	R 5,335,395
Investment property at market value	R 13,917,000
Net effect recognise in the revaluation reserve	R 8,581,605

Figures in Rand	2014	2013

43. Prior period errors

Prior year error	2012/13 Previously stated	2012/13 Restated	Difference
Property Plant and equipment	47 603 201	47 599 505	3 696
Payables from exchange transactions	(5 321 455)	(7 190 895)	1 869 440
Provisions	(10 928 631)	(7 479 873)	(3 448 758)
Other Income	(449 362)	(445 666)	(3 696)
Government grants and subsidies	(39 053 041)	(39 264 091)	211 050
General expenses	7 588 339	6 220 071	1 368 268
	(560 949)	**(560 949)**	**-**

The prior year figures of classes in the Statement of Financial Position and statement of financial perfomance have been re-stated to correctly classify the nature of Assets, Liabilities, net Assets, Income and expenditure of the Municipality.

The effect of the correction of Error is as follows:

	2014	2013
Prior year error is summarised as follows		
Correction of provision for landfill site	(3 448 758)	-
Correction of Workmans compensation	912 835	-
Correction of SALGA membership fees	956 605	-
Correction of prior years intangibles	3 696	-
	(1 575 622)	**-**
Provision for landfill site restated		
Provision for landfill site as previously stated	(9 230 756)	-
Correction of provision for landfillsite as per the new valuation from experts	3 448 758	-
	(5 781 998)	**-**
EPWP grant restated		
EPWP grant unspent as previously stated	(372 763)	-
Correction of prior year grant expenditure recognised in current year	211 050	-
	(161 713)	**-**
Workmans compensation restated		
Correction of workmans compensation relating to prior years	912 835	-
SALGA membership fees restated		
Correction of SALGA membership fees relating to prior years	956 605	-
Land as restated		
Land as previously stated	3 322 286	-
Land removed from assets	(3 696)	-
	3 318 590	**-**
Surplus for the year restated		
Surplus for the year as previously stated	8 165 046	7 082 498
Prior period error	-	1 575 622
Restated surplus	8 165 046	8 658 120

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

44. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed.

The unspent conditional grants liability amounts to R 15 744 437 and the municipality has investments to the value of R11 848 205.

The annual financial statements have however 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 service delivery.

45. Events after the reporting date

At the time of completion of the annual financial statements, there were no events after the reporting date affecting these annual financial statements.

46. Unauthorised expenditure

Opening balance	5 116 355	-
Unauthorised expenditure for current year	2 439 085	17 172 354
Approved by council or condoned	-	(12 055 999)
	7 555 440	**5 116 355**

At the time of completion of the annual financial statements, there was no unauthorised expenditure.

47. Fruitless and wasteful expenditure

Opening balance	-	100 891
Fruitless and wastefull expenditure for current year	86 563	291 625
Condoned or written off by council	-	(392 516)
	86 563	**-**

Interest and penalty charges were levied for the late payment of Eskom invoices for electricity bulk purchases and late payment of truck licence.

The municipality incurred the expenditure for cellphones for the employees to the amount of R212,532, in addition to the allowances of R182,078 also provided to the same employees.

48. Irregular expenditure

Opening balance	8 007 395	-
Add: Irregular Expenditure - current year	3 917 270	7 959 322
Add: Irregular expenditure from deviations	2 269 152	299 811
Less: Amounts condoned	-	(251 738)
	14 193 817	**8 007 395**

At the time of completion of the annual financial statements no irregular expenditure had been incurred.

49. Deviation from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulation approved by council, any deviation from the Supply Chain Management Policy needs to be approved/ Condoned by the Municipal manager, noted by council where the formal procurement processes could not be followed must be noted in the Annual Financial Statements

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management policy ratified by the Municipal Manager and reported to council.

- Abco Stationers R5 434
- Deloitte Consulting R179 037
- Jus Loos R4 104
- NASA Industrial Suppliers R10 274
- E.Hazard & Company R4959
- Laduma Sports R316440
- Ozone Fire R16399
- Qualfurn Training & Projects R34200
- Fern Hill Hotel R18015
- Smart Link Consultancy R35997
- Mamree hiring service R8000
- Mdova Entertainment R3000
- Cascade Avenue Trading R28200
- NMR Hardware R114656
- Imperial Armour R13680
- Tradesman Consulting R1055760
- Need a Tool R11457
- Electric World R11798
- Sparks and Ellis R49117
- Poobie Naidoo Sports R5845
- Mooi river & taxi R25950
- Pay Day R6750
- Surupins R12289
- Variprint R5860
- Compuworkx R10999
- Mpofana Plumbing R6951
- NEFCON R4313
- Hambakahle R18981

  Hilltop Solutions R49950
- Electronic Assemblies R16960
- Mid Deliveries R4788
- JarkEng R4104
- Singhs Tyres R3763
- Tidy File R5182
- Universal Print Group R15846
- Consulting Solutions R10249
- Inyameko Trading 1205C.C R10480
- MY Space R5300
- Mooisans R3243
- Voltex R20374
- Rob Wyly Trading R4078
- ESRI South Africa R14136
- ALTA Swanopoel & ASS R2550
- Magalela R4700

50. Risk management

Maximum credit risk exposure

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

50. Risk management (continued)

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 municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Cash and cash equivalents	2 344 512	(4 479 272)
Financial assets - investments	11 848 205	11 952 270
Consumer debtors	23 313 625	21 223 536
Maximum credit exposure	**37 506 342**	**28 696 534**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

50. Risk management (continued)

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality financial liabilities into amounts due within the 12 months after:

Trade payables	8 644 431	7 190 893
Finance lease obligation	512 087	1 533 340
Short term portion of long term liabilities	70 202	140 404
	9 226 720	**8 864 637**

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.

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits
- Long-term debtors

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

	Effect on profit before tax	
2013	**2% increase**	**2% decrease**
Financial assets - investment	119 523	(239 045)
Cash and cash equivalents	(44 793)	89 585
Consumer debtors	212 235	(424 471)
Annuity loan	(1 422)	2 844

51. Electricity losses

Electricity units (kWh) lost in distribution		
Electricity units (kWh) purchased from Eskom	58 050 911	59 789 898
Electricity units (kWh) sold from Eskom	(47 690 010)	(44 596 560)
	10 360 901	**15 193 338**

Electricity losses for the financial year is 25% (2013: 24%). The Rand value of the electricity losses for the current financial year is R6 874 000 (2013: R8,353,601).

These losses are attributable to electricity line losses within the electricity network infrastructure.

52. Councillor arrears on consumer accounts

No current councillor has arrears on his/her services account.