Msukaligwa Local Municipality
Annual Financial Statements
for the year ended 30 June 2014

General Information

Legal form of entity	Local municipality
Municipal demarcation code	MP302
Mayoral committee	
Executive Mayor	Bongwe JS
Speaker	Vilakazi BM
Chief Whip	Mashinini NG
Executive Committee	Madini VCN
	Nkosi MP
Ward Councillors	Breydenbach Z
	Dhludhlu ZC
	Dladla KH
	Jele SL
	Lukhele MC
	Mabasa FJ
	Malaza TT
	Mhlanga MJ
	Mnisi LP
	Msezane EC
	Msibi SJ
	Ndlovu BNN
	Nkosi DS
	Nkosi ZJ
	Sibeko PT
	Sibiya BI
	Swart HF
	Vilakazi SE
Proportional Councillors	Blignaut JDA
	Bongwe JS
	Greyling GS
	Litau DJ
	Mabunda D
	Mabuza BI
	Maseko PB
	Mashiane PE
	Mashinini NG
	Mathebula SC
	Msimango TG
	Ngwenya BR
	Ngwenya TC
	Nkosi PB
	Nkosi SJ
	Puwani BS
	Sibanyoni JH

General Information

Nature of business and principal activities	Service delivery
Grading of local authority	4
Capacity of local authority	Low capacity
Accounting Officer	Dlamini TBW (2013/07/01 - 2013/09/09) Zungu M (Acting - 2013/12/17 - 2014/08/22) Shongwe ZT (Appointed 2014/09/02)
Chief Finance Officer (CFO)	Vacant
Business address	Civic Centre C/o Kerk and Taute Street Ermelo 2350
Postal address	PO Box 48 Ermelo 2350
Bankers	Standard Bank
Auditors	Auditor-General of South Africa
Attorneys	Bekker, Brink & Brink Gildenhuys Malatji Inc Mohlala Attorneys Neuhoff Khoza Inc Nolte Attorneys Sefalafala Attorneys TMN Kgomo Inc

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

Abbreviations

DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Program
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SAMWU	South African Municipal Workers Union
SARS	South African Revenue Services
SCM	Supply Chain Management
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in the supply of electricity, water, sanitation and revenue collection services.

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

Net deficit of the municipality was R 34,017,954 (2013: deficit R 150,778,418).

2. Going concern

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

The pre-approved bank overdraft is R 5,000,000, for liquidity risk.

3. Subsequent events

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

4. Accounting policies

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

5. Corporate governance

General

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

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings, and monitors the municipality's compliance with the code on a three monthly basis.

Remuneration

The upper limits of the remuneration of the Municipal Manager (Acting), and the Chief Financial Officer, is determined by the Council, and is within the above mentioned limits.

Accounting Officer's Report

6. Auditors

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

The annual financial statements set out on pages 4 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2014 and were signed on its behalf by:

ZT Shongwe
Accounting Officer
Ermelo
31 October 2014

Msukaligwa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	489,616	19,872,279
Receivables from exchange transactions	4	61,822,916	49,165,257
Receivables from non-exchange transactions	5	32,384,908	26,152,919
VAT receivable	6	15,888,846	14,594,066
Inventories	7	3,643,978	7,858,777
		114,230,264	**117,643,298**
Non-Current Assets			
Property, plant and equipment	8	1,525,242,574	1,500,270,216
Intangible assets	9	25,263	13,645
Heritage assets	10	1,069,102	1,069,102
		1,526,336,939	**1,501,352,963**
Total Assets		**1,640,567,203**	**1,618,996,261**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	340,274,031	291,995,707
Consumer deposits	12	9,374,414	7,948,325
Provisions	13	-	8,091,282
Finance lease obligation	14	2,247,971	2,446,168
Operating lease liability		-	3,301
Employee benefit obligation	15	5,021,000	4,315,000
Unspent conditional grants and receipts	16	26,705,403	23,054,884
Other financial liabilities	17	-	22,259
		383,622,819	**337,876,926**
Non-Current Liabilities			
Provisions	13	31,669,991	21,425,121
Finance lease obligation	14	1,788,534	2,997,398
Employee benefit obligation	15	36,703,000	35,896,000
		70,161,525	**60,318,519**
Total Liabilities		**453,784,344**	**398,195,445**
Net Assets		**1,186,782,859**	**1,220,800,816**
Accumulated surplus		1,186,782,859	1,220,800,816

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	245,994,031	201,073,912
Rental of facilities and equipment		1,816,362	1,613,280
Income from agency services		6,511,811	4,712,717
Licences and permits		3,116,605	3,420,515
Sale of erven		3,355,443	3,863,940
Other revenue	19	1,000,434	5,519,170
Interest received	20	12,511,436	12,557,804
Total revenue from exchange transactions		**274,306,122**	**232,761,338**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	62,516,945	57,158,963
Transfer revenue			
Government grants and subsidies	22	167,801,166	152,767,465
Fines	23	2,525,243	1,748,449
Donations	24	25,192,890	-
Total revenue from non-exchange transactions		**258,036,244**	**211,674,877**
Total revenue		**532,342,366**	**444,436,215**
Expenditure			
Allowance for debt impairment	25	(16,852,170)	(79,058,737)
Bulk purchases	26	(204,616,570)	(194,670,771)
Contracted services	27	(38,942,247)	(32,446,349)
Depreciation and amortisation	28	(59,962,606)	(62,381,280)
Employee related costs	29	(139,657,252)	(131,570,871)
Finance costs	30	(9,242,854)	(10,606,389)
General expenses	31	(71,496,801)	(57,349,757)
Remuneration of councillors	32	(10,727,797)	(9,758,130)
Repairs and maintenance	33	(14,862,023)	(17,372,349)
Total expenditure		**(566,360,320)**	**(595,214,633)**
Operating deficit		**(34,017,954)**	**(150,778,418)**
Deficit for the year		**(34,017,954)**	**(150,778,418)**

Msukaligwa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2012 as restated	**1,371,579,234**	**1,371,579,234**
Changes in net assets		
Deficit for the year	(150,778,418)	(150,778,418)
Total changes	(150,778,418)	(150,778,418)
Opening balance as previously reported	1,460,251,851	1,460,251,851
Adjustments		
Prior year adjustments (Note 39)	(239,451,038)	(239,451,038)
Balance at 01 July 2013 as restated	**1,220,800,813**	**1,220,800,813**
Changes in net assets		
Deficit for the year	(34,017,954)	(34,017,954)
Total changes	(34,017,954)	(34,017,954)
Balance at 30 June 2014	**1,186,782,859**	**1,186,782,859**

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		276,730,566	219,073,855
Grants		171,451,685	162,423,493
Interest income		12,511,436	12,557,804
Other receipts		40,993,545	19,129,622
		501,687,232	413,184,774
Payments			
Employee costs		(150,385,049)	(141,329,001)
Suppliers		(276,518,158)	(195,885,403)
Finance costs		(6,979,573)	(8,420,241)
		(433,882,780)	(345,634,645)
Net cash flows from operating activities	34	**67,804,452**	**67,550,129**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(85,247,026)	(42,254,361)
Purchase of intangible assets	9	(18,472)	-
Net cash flows from investing activities		**(85,265,498)**	**(42,254,361)**
Cash flows from financing activities			
Loans paid		(22,259)	(19,519)
Finance lease payments		(1,899,358)	(3,649,037)
Net cash flows from financing activities		**(1,921,617)**	**(3,668,556)**
Net (decrease) / increase in cash and cash equivalents		**(19,382,663)**	**21,627,212**
Cash and cash equivalents at the beginning of the year		19,872,279	(1,754,933)
Cash and cash equivalents at the end of the year	3	**489,616**	**19,872,279**

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 (Note 50)
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	234,734,939	3,067,704	**237,802,643**	245,994,031	**8,191,388**	
Rental of facilities and equipment	1,983,595	(144,715)	**1,838,880**	1,816,362	**(22,518)**	50.1
Income from agency services	4,843,782	(43,782)	**4,800,000**	6,511,811	**1,711,811**	
Licences and permits	2,397,120	1,102,880	**3,500,000**	3,116,605	**(383,395)**	
Sale of erven	10,075,000	(8,565,000)	**1,510,000**	3,355,443	**1,845,443**	50.2
Other revenue	1,804,567	(977,392)	**827,175**	1,000,434	**173,259**	
Interest received - investment	10,872,900	(1,997,900)	**8,875,000**	12,511,436	**3,636,436**	50.3
Total revenue from exchange transactions	**266,711,903**	**(7,558,205)**	**259,153,698**	**274,306,122**	**15,152,424**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	59,733,768	3,232,166	**62,965,934**	62,516,945	**(448,989)**	
Transfer revenue						
Fines	990,403	(664,103)	**326,300**	2,525,243	**2,198,943**	50.4
Donations	1,000	(995)	**5**	25,192,890	**25,192,885**	50.5
Government grants and subsidies	110,387,925	(1,114,925)	**109,273,000**	167,801,166	**58,528,166**	50.6
Total revenue from non-exchange transactions	**171,113,096**	**1,452,143**	**172,565,239**	**258,036,244**	**85,471,005**	
Total revenue	**437,824,999**	**(6,106,062)**	**431,718,937**	**532,342,366**	**100,623,429**	
Expenditure						
Employee related cost	(146,011,008)	13,702,573	**(132,308,435)**	(139,657,252)	**(7,348,817)**	50.7
Remuneration of councillors	(10,648,567)	(104,064)	**(10,752,631)**	(10,727,797)	**24,834**	
Depreciation and amortisation	(39,080,472)	(7,600,962)	**(46,681,434)**	(59,962,606)	**(13,281,172)**	50.8
Scrapped assets	(14,872,034)	29,464,291	**14,592,257**	-	**(14,592,257)**	
Finance costs	979,434	216,266	**1,195,700**	(9,242,854)	**(10,438,554)**	50.9
Debt impairment	(60,545,903)	45,631,259	**(14,914,644)**	(16,852,170)	**(1,937,526)**	50.10
Repairs and maintenance	(27,076,585)	7,938,172	**(19,138,413)**	(14,862,023)	**4,276,390**	50.11
Bulk purchases	(144,277,506)	(22,217,494)	**(166,495,000)**	(204,616,570)	**(38,121,570)**	50.12
Contracted services	(28,871,350)	(5,268,632)	**(34,139,982)**	(38,942,247)	**(4,802,265)**	50.13
General expenses	(115,930,516)	26,061,041	**(89,869,475)**	(71,496,801)	**18,372,674**	50.14
Total expenditure	**(586,334,507)**	**87,822,450**	**(498,512,057)**	**(566,360,320)**	**(67,848,263)**	
Surplus	**(148,509,508)**	**81,716,388**	**(66,793,120)**	**(34,017,954)**	**32,775,166**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(148,509,508)**	**81,716,388**	**(66,793,120)**	**(34,017,954)**	**32,775,166**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Receivables

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

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

Impairment testing

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

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Effective interest rate

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

Allowance for impairment

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

1.4 Heritage assets

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

Recognition

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

Where the municipality holds a heritage asset, but on initial recognition, it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 11 - Heritage assets.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

1.4 Heritage assets (continued)

Derecognition

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

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

1.5 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 for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

Cost model

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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

The gains or losses arising from the derecognition of investment property is the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

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

1.6 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 reporting period.

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

1.6 Property, plant and equipment (continued)

Property, plant and equipment is initially recognised at cost.

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

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

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

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 and intangibles, 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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

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

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

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

Item	Average useful life
Landfill sites	5 - 30 years
Other property, plant and equipment	2 - 35 years
Infrastructure assets	5 - 80 years
Work in progress	n/a

The residual value, 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 municipality to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

1.6 Property, plant and equipment (continued)

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.

Compensation from third parties for an item of property, plant and equipment and intangibles that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

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 an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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

1.8 Intangible assets

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

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.

Intangible assets are initially recognised at cost.

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

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.

1.8 Intangible assets (continued)

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.

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	1-6 years

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

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

1.9 Financial instruments

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

Classification

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

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

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

1.9 Financial instruments (continued)

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

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

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

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

For amount due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

Accounting Policies

1.9 Financial instruments (continued)

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

Financial liabilities

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

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

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

1.10 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.

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

1.10 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue 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.

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

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

Any contingent rents are recognised separately as revenue in the period in which they are received.

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.

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

Any contingent rents are recognised separately as an expense 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.

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.

1.11 Inventories (continued)

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 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.13 Impairment of non-cash-generating assets

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

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

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

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

Accounting Policies

1.14 Impairment of cash-generating assets

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

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

1.14 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Accounting Policies

1.15 Employee benefits

Short-term employee benefits

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

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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

Post-employment benefits

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

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

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

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.15 Employee benefits (continued)

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.15 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

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

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

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

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

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

1.16 Provisions and contingencies

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

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

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

Accounting Policies

1.16 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating expenditure.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.13.

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

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

1.17 Revenue from exchange transactions

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- 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 the reporting date. Stage of completion is determined by surveys of work performed.

Interest and royalties

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

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

1.18 Revenue from non-exchange transactions

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

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

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

1.18 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

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

Measurement

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

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

Transfers

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

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

Fines

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

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

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

Property rates

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
- to the extent that 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.

1.18 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

1.19 Borrowing costs

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

1.20 Accumulated surplus/deficit

The accumulated surplus/deficit represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.21 Value-Added Tax

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

1.22 Comparative figures

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

1.23 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.

1.24 Fruitless and wasteful expenditure

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

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

1.25 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.

1.26 Budget information

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

1.26 Budget information (continued)

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

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

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

1.27 Related parties

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

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

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

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

1.28 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.29 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.30 Grants in aid

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

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

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

1.31 Events after the reporting date

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

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 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:

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this standard (GRAP 25) and IAS 19(R) is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard in not material.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April 2013

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the amendment was an increase in revenue recognised on initial recognition, with an increase in the provision for impairment recognised under receivables.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a standard of GRAP would otherwise require or permit to be measured at fair value is no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

The effective date of the amendment is for years beginning on or after 01 April 2013

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

2. New standards and interpretations (continued)

GRAP 17 (as revised 2012): Property, Plant and Equipment

Amendments were made to measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 27 and GRAP 31 (as revised 2012)

These Standards of GRAP replace the previous Standard of GRAP on Agriculture (GRAP 101) and Standard of GRAP on Intangible Assets due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27) and Intangible Assets (IPSAS 31) respectively.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation now addresses the manner in which the municipality applies the probability test on initial recognition of both:

(a) exchange revenue (GRAP 9); and
(b) non-exchange revenue (GRAP 23).

All amendments to be applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

The expected impact of the amendment is the increase in revenue recognised on initial recongition, with a subsequent change in Revenue estimate on the municipality’s annual financial statements.

IGRAP 16: Intangible Assets - Website Costs

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

If the municipality is not able to demonstrate how a website developed solely and primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

Interpretation to be applied retrospectively.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

The impact of the interpretation is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) applies this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard sets out the requirements, inter alia, for the disclosure of:
- control;
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 100 (revised 2013): Discontinued Operations

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	32,570	32,570
Bank balances	457,046	2,832,034
Short-term deposits	-	17,007,675
	489,616	**19,872,279**

No restrictions on the use of cash and cash equivalents.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	**30 June 2013**	**30 June 2012**	**30 June 2014**	**30 June 2013**	**30 June 2012**
Standard Bank - Business Current Account - 031-077-110	457,046	2,832,034	1,307,076	457,046	2,832,034	1,307,076
Standard Bank - Market Link - 031087825	-	17,007,675	9,999,746	-	17,007,675	9,999,746
Cash on hand	32,570	32,570	32,570	32,570	32,570	32,570
Total	**489,616**	**19,872,279**	**11,339,392**	**489,616**	**19,872,279**	**11,339,392**

4. Receivables from exchange transactions

Gross balances		
Electricity	65,830,738	64,314,907
Water	61,851,332	56,370,084
Sewerage	50,736,715	49,518,662
Refuse	47,915,362	46,521,610
	226,334,147	**216,725,263**
Less: Allowance for impairment		
Electricity	(40,451,875)	(42,223,737)
Water	(45,314,201)	(44,897,591)
Sewerage	(39,819,966)	(40,794,131)
Refuse	(38,925,189)	(39,644,547)
	(164,511,231)	**(167,560,006)**
Net balance		
Electricity	25,378,863	22,091,170
Water	16,537,131	11,472,493
Sewerage	10,916,749	8,724,531
Refuse	8,990,173	6,877,063
	61,822,916	**49,165,257**
Electricity		
Current (0 - 30 days)	10,359,468	9,746,391
31 - 60 days	2,829,728	4,027,622
61 - 90 days	1,673,754	2,561,220
91 days plus	50,967,788	47,979,674
Less: Allowance for impairment	(40,451,875)	(42,223,737)
	25,378,863	**22,091,170**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

Water		
Current (0 - 30 days)	2,935,487	1,929,634
31 - 60 days	1,835,859	974,831
61 - 90 days	1,363,627	763,404
91 days plus	55,716,359	52,702,214
Less: Allowance for impairment	(45,314,201)	(44,897,590)
	16,537,131	**11,472,493**

Sewerage		
Current (0 - 30 days)	1,873,477	1,491,476
31 - 60 days	1,145,432	856,061
61 - 90 days	1,010,876	829,872
91 days plus	46,706,930	46,341,253
Less: Allowance for impairment	(39,819,966)	(40,794,131)
	10,916,749	**8,724,531**

Refuse		
Current (0 - 30 days)	1,601,073	1,235,385
31 - 60 days	1,027,524	760,066
61 - 90 days	818,163	650,147
91 days plus	44,468,602	43,876,012
Less: Allowance for impairment	(38,925,189)	(39,644,547)
	8,990,173	**6,877,063**

Summary of receivables by customer classification

Consumers		
Current (0 - 30 days)	7,809,281	6,075,374
31 - 60 days	4,556,727	3,352,021
61 - 90 days	3,522,782	2,593,584
91 days plus	166,140,438	162,226,582
	182,029,228	174,247,561
Less: Allowance for impairment	(141,619,364)	(144,726,487)
	40,409,864	**29,521,074**

Industrial/ commercial		
Current (0 - 30 days)	7,379,257	6,976,034
31 - 60 days	1,707,173	2,471,524
61 - 90 days	1,041,395	1,838,497
91 days plus	26,559,807	24,099,718
	36,687,632	35,385,773
Less: Allowance for impairment	(22,248,974)	(22,147,611)
	14,438,658	**13,238,162**

National and provincial government		
Current (0 - 30 days)	1,580,938	1,351,479
31 - 60 days	574,645	795,035
61 - 90 days	302,242	372,563
91 days plus	5,159,434	4,572,853
	7,617,259	7,091,930
Less: Allowance for impairment	(642,893)	(685,909)
	6,974,366	**6,406,021**

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

Total		
Current (0 - 30 days)	16,769,505	14,402,886
31 - 60 days	6,838,544	6,618,580
61 - 90 days	4,866,419	4,804,644
91 days plus	197,859,679	190,899,153
	226,334,147	216,725,263
Less: Allowance for impairment	(164,511,231)	(167,560,006)
	61,822,916	**49,165,257**

Less: Allowance for impairment		
Total allowance for debt impairment	(164,511,231)	(167,560,006)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(167,560,006)	(108,338,832)
Contributions to allowance	(16,122,364)	(59,221,174)
Reversal of allowance	19,171,139	-
	(164,511,231)	**(167,560,006)**

Consumer receivables pledged as security

No consumer receivables were pledged as security.

Receivables from exchange transactions past due but not impaired

Receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2014, R 28,474,468 (2013: R 25,826,110) were past due but not impaired.

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

1 month past due	16,769,505	14,402,886
2 months past due	6,838,544	6,618,580
3 months past due	4,866,419	4,804,644
	28,474,468	**25,826,110**

Receivables from exchange transactions impaired

As of 30 June 2014, receivables of R 197,859,679 (2013: R 190,899,153) were impaired and provided for.

The amount of the provision was R 164,511,231 as of 30 June 2014 (2013: R 167,560,006).

The ageing of these receivables is as follows:

3 to 6 months	2,008,338	1,398,251
Over 6 months	31,340,109	21,940,896

Figures in Rand	2014	2013

5. Receivables from non-exchange transactions

Consumer receivables - Property rates	19,678,887	15,067,127
Consumer receivables - Sundry	4,271,109	2,814,680
Fines	901,818	499,599
Sundry receivables	1,564,040	1,347,764
Third party vending	5,394,799	4,552,635
Unemployment Insurance Fund	574,255	574,255
Outstanding deposits	-	1,296,859
	32,384,908	**26,152,919**

Rates and service charges

Current (0 -30 days)	5,088,976	4,607,078
31 - 60 days	2,346,689	1,904,279
61 - 90 days	1,774,386	1,707,336
91 days plus	48,638,819	44,527,397
Less: Allowance for debt impairment	(38,169,983)	(37,678,963)
	19,678,887	**15,067,127**

Sundry

Current (0 - 30 days)	950,824	489,441
31 - 60 days	306,976	184,702
61 - 90 days	413,334	220,118
91 days plus	16,475,524	14,868,521
Less: Allowance for impairment	(13,875,608)	(12,948,102)
	4,271,109	**2,814,680**

Fines

Current (0 - 30 days)	346,375	139,100
31 - 60 days	391,700	93,150
61 - 90 days	267,850	40,600
91 days plus	1,728,224	1,314,602
Less: Allowance for impairment	(1,832,331)	(1,087,853)
	901,818	**499,599**

Summary of recevables by customer classification

Consumers

Current (0 - 30 days)	3,275,854	2,566,785
31 - 60 days	1,503,566	1,169,082
61 - 90 days	1,288,593	997,008
91 days plus	43,850,042	40,492,136
	49,918,055	45,225,011
Less: Allowance for debt impairment	(38,030,856)	(36,586,921)
	11,887,199	**8,638,090**

Industrial / commercial

Current (0 - 30 days)	2,291,175	2,117,841
31 - 60 days	730,871	555,323
61 - 90 days	516,558	507,335
91 days plus	16,694,352	15,056,217
	20,232,956	18,236,716
Less: Allowance for debt impairment	(13,292,570)	(13,293,163)
	6,940,386	**4,943,553**

Figures in Rand	2014	2013

5. Receivables from non-exchange transactions (continued)

National and provincial government		
Current (0 - 30 days)	472,871	411,893
31 - 60 days	419,188	364,576
61 - 90 days	382,568	423,110
91 days plus	4,569,949	3,847,564
	5,844,576	5,047,143
Less: Allowance for debt impairment	(722,165)	(746,980)
	5,122,411	**4,300,163**

Other		
Current (0 -30 days)	5,741,174	4,691,735
31 - 60 days	391,700	93,150
61 - 90 days	267,850	40,600
91 days plus	3,866,519	4,533,480
Less: Allowance for debt impairment	(1,832,331)	(1,087,853)
	8,434,912	**8,271,112**

Total		
Current (0 - 30 days)	11,781,074	9,788,254
31 - 60 days	3,045,325	2,182,131
61 - 90 days	2,455,569	1,968,053
91 days plus	68,980,862	63,929,397
	86,262,830	77,867,835
Less: Allowance for debt impairment	(53,877,922)	(51,714,917)
	32,384,908	**26,152,918**

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information.

None of the financial assets that are fully performing have been renegotiated in the last year.

Reconciliation of allowance for impairment of receivables from non-exchange transactions

Opening balance	(51,714,917)	(30,790,159)
Allowance for impairment	(2,163,005)	(20,924,758)
	(53,877,922)	**(51,714,917)**

6. VAT receivable

VAT receivable	15,888,846	14,594,066

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

7. Inventories

	2014	2013
Consumable stores at cost	2,724,153	7,320,009
Unsold water	919,825	538,768
	3,643,978	**7,858,777**

Inventory pledged as security

No inventories were pledged as security.

8. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Infrastructure assets	1,225,389,039	(107,360,021)	1,118,029,018	1,359,534,494	(252,323,799)	1,107,210,695
Landfill sites	23,632,173	(7,521,262)	16,110,911	23,249,569	(5,900,483)	17,349,086
Leased assets	6,297,274	-	6,297,274	5,720,358	-	5,720,358
Other property, plant and equipment	362,759,418	(16,547,767)	346,211,651	357,217,522	(7,084,570)	350,132,952
Work in progress	38,593,720	-	38,593,720	19,857,125	-	19,857,125
Total	**1,656,671,624**	**(131,429,050)**	**1,525,242,574**	**1,765,579,068**	**(265,308,852)**	**1,500,270,216**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Transfers**	**Other changes, movements**	**Depreciation**	**Total**
Infrastructure assets	1,107,210,695	27,345,742	37,399,298	-	(53,926,717)	1,118,029,018
Landfill sites	17,349,086	382,604	-	-	(1,620,779)	16,110,911
Leased assets	5,720,358	1,110,124	-	-	(533,208)	6,297,274
Other property, plant and equipment	350,132,952	272,663	-	(318,924)	(3,875,040)	346,211,651
Work in progress	19,857,125	56,135,893	(37,399,298)	-	-	38,593,720
	1,500,270,216	**85,247,026**	**-**	**(318,924)**	**(59,955,744)**	**1,525,242,574**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Transfers**	**Depreciation**	**Total**
Infrastructure assets	1,123,910,895	6,939,798	28,743,427	(52,383,425)	1,107,210,695
Landfill sites	18,975,295	3,894,289	-	(5,520,498)	17,349,086
Leased assets	6,297,359	-	-	(577,001)	5,720,358
Other property, plant and equipment	353,960,761	84,975	-	(3,912,784)	350,132,952
Work in progress	24,175,093	31,335,299	(35,653,267)	-	19,857,125
	1,527,319,403	**42,254,361**	**(6,909,840)**	**(62,393,708)**	**1,500,270,216**

8. Property, plant and equipment (continued)

Pledged as security

Refer to note 14 for property, plant and equipment assets pledged as security.

Assets with zero value carrying amount and a cost of R 11 698 are still in use.

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.

For the detailed categories of moveable- and immovable assets, refer to Appendix B.

9. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	146,920	(121,657)	25,263	81,807	(68,162)	13,645

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	13,645	18,472	(6,854)	25,263

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	44,489	(30,844)	13,645

Pledged as security

No intangible assets were pledged as security.

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

10. Heritage assets

	2014			2013		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Medal, coins, historical mints and chains	1,069,102	-	1,069,102	1,069,102	-	1,069,102

Reconciliation of heritage assets 2014

	Opening balance	Total
Medal, coins, historical mints and chains	1,069,102	1,069,102

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

10. Heritage assets (continued)

Reconciliation of heritage assets 2013

	Opening balance	**Total**
Medal, coins, historical mints and chains	1,069,102	1,069,102

Pledged as security

No heritage assets were pledged as security.

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.

11. Payables from exchange transactions

	2014	2013
Accrued 13th cheques	2,591,127	2,266,330
Accrued allowances	603,776	199,217
Accrued employee costs	2,335,984	1,598,070
Accrued expenditure	299,127,054	253,364,772
Accrued interest	25,920	15,918
Accrued leave pay	10,670,501	9,316,563
Accrued overtime	1,176,033	1,221,272
Amounts received in advance	6,353,422	6,554,829
Retentions	7,123,727	6,763,639
Stated benefits	928,110	928,103
Sundry creditors	8,057,047	7,786,013
Trade payables	717,330	43,739
Unallocated deposits	564,000	1,937,242
	340,274,031	**291,995,707**

12. Consumer deposits

	2014	2013
Electricity and water	9,374,414	7,948,325

Figures in Rand	2014	2013

13. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Unwinding of discount	Total
Environmental rehabilitation	29,516,403	382,604	1,770,984	31,669,991

Reconciliation of provisions - 2013

	Opening Balance	Additions	Unwinding of discount	Total
Environmental rehabilitation	24,171,806	3,894,289	1,450,308	29,516,403

	2014	2013
Non-current liabilities	31,669,991	21,425,121
Current liabilities	-	8,091,282
	31,669,991	**29,516,403**

Landfill site rehabilitation is for the Breyton and Ermelo sites.

The Ermelo site will close in 2025 and the Breyton site in 2024.

Ermelo is a G:M:B site and Breyton a G:C:B+ site.

The rehabilitation costs are determined by calculating the volumes of excavations, materials required and legal requirements according to the footprint of each individual site.

The waste bodies will be shaped to 1:3 side slopes and a 5% gradient top slope.

Both landfill sites are outside the 1:50 year flood lines or any nearby waterways.

A discount rate of 6% is used.

Figures in Rand	2014	2013

14. Finance lease obligation

Minimum lease payments due		
- within one year	2,520,588	2,914,857
- in second to fifth year inclusive	1,937,251	3,221,761
	4,457,839	6,136,618
less: future finance charges	(421,334)	(693,052)
Present value of minimum lease payments	**4,036,505**	**5,443,566**
Present value of minimum lease payments due		
- within one year	2,247,971	2,446,168
- in second to fifth year inclusive	1,788,534	2,997,398
	4,036,505	**5,443,566**
Non-current liabilities	1,788,534	2,997,398
Current liabilities	2,247,971	2,446,168
	4,036,505	**5,443,566**

It is the municipality's policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 10% (2013: 10%).

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

15. Employee benefit obligation

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

Post-retirement medical aid benefit liability (carrying value)		
Balance at the beginning of the year	31,947,000	30,737,998
Current service cost	646,000	504,806
Interest cost	2,318,000	1,686,767
Benefits paid	(1,930,209)	(1,763,520)
Actuarial losses / (gains)	5,209	780,949
	32,986,000	**31,947,000**

The municipality provides post employment medical aid benefits upon retirement to some retirees and their legitimate spouses. The entitlement to post-employment medical aid benefits is based on the employees remaining in service up to retirement age and the completion of a minimum service period. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefit are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2014. The present value of the defined obligation, the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care to the following medical aid schemes:
- LA Health
- Key Health
- Bonita's
- Hosed
- Fed Health
- Samwumed

Figures in Rand	2014	2013

15. Employee benefit obligation (continued)

Net expense recognised in the statement of financial performance

	2014	2013
Current service cost	646,000	504,806
Interest cost	2,318,000	1,686,767
Benefits paid	(1,930,209)	(1,763,520)
Actuarial losses / (gains)	5,209	780,949
	1,039,000	**1,209,002**

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Assumptions used at the reporting date:

	2014	2013
Discount rates used	8.94 %	7.40 %
Consumer price inflation	7.05 %	5.66 %
Medical aid contribution inflation	8.05 %	6.66 %
Maximum subsidy increases	0.82 %	0.69 %

The municipality expects to make a contribution of R 2 157 000 (2013: R 1 862 000) to the defined benefit plans during the next financial year.

Other assumptions

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 accrued liability	34,023,000	31,616,000
Effect on interest cost	2,978,000	2,760,000
Effect on service cost	661,000	599,000

Amounts for the current and previous three years are as follows: Post-Retirment medical aid benefit liability

	2014	**2013**	**2012**	**2011**
Defined benefit obligation	32,986,000	31,947,000	30,737,998	30,310,355

Long service award liability

The municipality has an obligation to provide long-service allowance benefits to all its permanent employees. According to the rules of the Long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 40 and 45 years of continued service. The municipality operates an unfunded defined benefit plan for these qualifying employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2014. The present value of the long service obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The municipality expects to make a contribution of R 705 000 (2013: R 948 000) to the defined benefit plans during the next financial year

Figures in Rand	2014	2013

15. Employee benefit obligation (continued)

Long service award liability

Balance at the beginning of the year	8,264,000	7,426,000
Current service costs	749,000	656,000
Interest cost	602,000	591,000
Benefits paid	(961,375)	(1,016,000)
Actuarial losses / (gains)	84,375	607,000
	8,738,000	**8,264,000**

The amounts recognised in the Statement of Financial Position are as follows:

Total long service liability	8,738,000	8,264,000

The amounts recognised in the Statement of Financial Performance are as follows:

Current service costs	749,000	656,000
Interest cost	602,000	591,000
Benefits paid	(961,375)	(1,016,000)
Actuarial losses / (gains)	84,375	607,000
	474,000	**838,000**

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	7.96 %	7.40 %
Consumer price inflation	6.33 %	5.74 %
Normal salary increase rate	7.33 %	6.66 %
Net effective discount rate	0.59 %	0.69 %

Total employee benefit obligations

Amounts recognised in the Statement of Financial Position are as follows:

Post - retirement medical aid benefit	32,986,000	31,947,000
Long service award liability	8,738,000	8,264,000
	41,724,000	**40,211,000**

Non-current liability	5,021,000	4,315,000
Current liability	36,703,000	35,896,000
	41,724,000	**40,211,000**

Amounts recognised in the Statement of Financial Performance are as follows:

Post - retirement medical aid benefit	1,039,000	1,209,002
Long service award	474,000	838,000
	1,513,000	**2,047,002**

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

	One percentage point increase	**One percentage point decrease**
Effect on the accrued liability	9,433,000	8,113,000
Effect on interest cost	753,000	641,000
Effect on service cost	889,000	737,000

Amounts for the current and previous three years are as follows: Long service award liability

Figures in Rand	2014	2013

15. Employee benefit obligation (continued)

	2014	2013	2012	2011
Defined benefit obligation	8,738,000	8,264,000	7,426,000	6,463,000

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprise of:

Unspent conditional grants and receipts		
Department of Local Government Grant	554,592	1,777,326
Integrated National Electrification Grant	5,067,844	2,072,045
Municipal Infrastructure Grant	19,592,967	17,715,513
Municipal System Improvement Grant	790,000	790,000
Sport and Recreation Grant - National Lottery	700,000	700,000
	26,705,403	**23,054,884**

Movement during the year

Balance at the beginning of the year	23,054,884	12,606,028
Additions during the year	171,451,685	163,216,321
Income recognition during the year	(167,801,166)	(152,767,465)
	26,705,403	**23,054,884**

See note 22 for reconciliation of grants from National/Provincial Government.

17. Other financial liabilities

At amortised cost		
Bank loan Financial institution: Development Bank of South Africa Term: Twenty years Interest and capital repayments: Every six months Interest rate: 13.56%	-	22,259
Current liabilities		
At amortised cost	-	22,259

18. Service charges

Connection fees	4,779,028	3,035,630
Other service charges	1,576,862	1,009,993
Refuse removal	21,483,827	18,744,754
Sale of electricity	157,755,008	137,328,264
Sale of water	36,667,332	19,230,556
Sewerage and sanitation charges	23,731,974	21,724,715
	245,994,031	**201,073,912**

Figures in Rand	2014	2013

19. Other revenue

Administration and management fees	350,149	332,336
Commission received	111,418	80,580
Fees earned	990	7,710
Recoveries	6,801	16,189
Rental income	21,255	32,648
Royalties received	1,500	1,500
Sundry income	508,321	5,048,207
	1,000,434	**5,519,170**

20. Interest received

Interest revenue		
Interest on consumer receivables	11,947,983	11,516,372
Interest on other financial assets	563,453	1,041,432
	12,511,436	**12,557,804**

21. Property rates

Rates received

Assessment rates	65,278,986	59,494,657
Less: Income foregone	(2,762,041)	(2,335,694)
	62,516,945	**57,158,963**

Valuations

Agricultural	3,170,765,610	3,270,427,110
Commercial	1,557,860,490	1,386,128,100
Residential	4,948,856,630	4,491,208,500
State	497,642,000	425,529,000
	10,175,124,730	**9,573,292,710**

Valuations on land and buildings are performed at least every 4 years. The last valuation came into effect on 1 July 2011. The basic rates of R0.017449 (2013: R0.16524) on the value of business land and buildings, R0.005816 (2013: R0.005508) on the value of state land and buildings and R0.005816 (2013: R0.05508) on the value of residential land and buildings were applied to determine assessment rates. These rates were agreed to the approved tariff policy.

22. Government grants and subsidies

Operating grants		
EPWP Grant	1,000,000	1,056,000
Equitable Share	108,953,000	105,157,000
Department of Local Government	1,222,734	-
Municipal Finance Management Grant	1,550,000	1,500,000
Municipal Infrastructure Grant	2,000,000	1,653,227
Municipal System Improvement Grant	890,000	800,000
SETA Grant	254,685	728,476
	115,870,419	110,894,703
Capital grants		
Gert Sibande District Municipality Grant	-	7,107,845
Integrated National Electrification Grant	18,021,201	4,861,693
Municipal Infrastructure Grant	33,909,546	29,903,224
	167,801,166	**152,767,465**

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

Conditional and unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	58,848,166	47,610,465
Unconditional grants received	108,953,000	105,157,000
	167,801,166	**152,767,465**

EPWP Grant

Current - year receipts	1,000,000	1,056,000
Conditions met - transferred to revenue	(1,000,000)	(1,056,000)
	-	**-**

This grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

Equitable share

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

Department of Local Government Grant

Balance unspent at beginning of year	1,777,326	1,777,326
Conditions met - transferred to revenue	(1,222,734)	-
	554,592	**1,777,326**

Conditions still to be met - remain liabilities (see note 16).

The grant has been provided for upgrading the Wesselton sewer plant.

The unspent portion will be utilised in the next financial year.

Municipal Finance Management Grant

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

This grant is used to assist in support and implementation of financial management reforms, attendance at accredited training and capacity building programmes on financial management.

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	17,715,513	8,894,968
Current - year receipts	38,481,000	40,377,000
Conditions met - transferred to revenue (operational)	(2,000,000)	(1,653,231)
Conditions met - transferred to revenue (capital)	(33,909,546)	(29,903,224)
Withheld	(694,000)	-
	19,592,967	**17,715,513**

Conditions still to be met - remain liabilities (see note 16).

This grant is used to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

The unspent portion relates to projects not completed at year end. The municipality has requested approval for the funds to be rolled over and utilised in the next financial year.

National Treasury is stopping of funds due to underspending on the Municipal Infrastructure Grant. Section 18(1) (b) of the Division of Revenue Act, provides that the National Treasury may in its discretion or at the request of the transferring national officer stop the transfer if it anticipates that a municpality will substantially under-spend on a programme or allocation in the financial year. Section 18 of the Division of Revenue Act (Act No. 2 of 2013) was invoked by National Treasury resulting in the allocation of funds for Municipal Infrastructure Grant being reduced by R 6 000 000.

Municipal System Improvement Grant

Balance unspent at beginning of year	790,000	790,000
Current - year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	790,000	**790,000**

Conditions still to be met - remain liabilities (see note 16).

This grant is used for building the capacity of municipalities to
implement sound institutional and governance systems required in terms of local government legislation.

SETA Grant

Current - year receipts	254,685	728,476
Conditions met - transferred to revenue	(254,685)	(728,476)
	-	**-**

Gert Sibande District Grant

Current - year receipts	-	7,107,845
Conditions met - transferred to revenue	-	(7,107,845)
	-	**-**

This grant is for infrastructure projects and movable assets e.g. motor vehicles.

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

Integrated National Electrification Grant

Balance unspent at beginning of year	2,072,045	1,233,734
Current - year receipts	21,500,000	5,700,000
Conditions met - transferred to revenue (Capital)	(18,021,201)	(4,861,689)
Withheld	(483,000)	-
	5,067,844	**2,072,045**

Conditions still to be met - remain liabilities (see note 16).

This grant is used to address the electrification backlog of occupied
residential dwellings, clinics and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

The unspent portion relates to projects not completed at year end. The municipality has requested approval for the funds to be rolled over and utilised in the next financial year.

Department of Water and Forestry Grant

Current - year receipts	-	568,247
Prior period adjustment	-	(568,247)
	-	**-**

The grant has been provided for draught relief projects.

Sport and Recreation Grant - National Lottery

Balance unspent at beginning of year	700,000	700,000

Conditions still to be met - remain liabilities (see note 16).

The grant has been provided by the National Lottery to fund the refurbishment of the public swimming pool.

The grant has not been utilised as the project costs exceed the available grant funds.

Changes in level of government grants

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

23. Fines

Fines	2,525,243	1,748,449

Fines were accounted for in line with the requirements of IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue. A change in estimate of fines revenue has been accounted for. Refer to Note 38.

24. Donations

Donations amounting to R 20,215,976 represents projects funded and completed by the Gert Sibande district municipality.

25. Allowance for debt impairment

Consumer receivables	16,852,170	79,058,737

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

26. Bulk purchases

Electricity	136,701,743	158,863,494
Water	67,914,827	35,807,277
	204,616,570	**194,670,771**
Distribution losses		
Electricity (losses in units)	71,648,533	75,478,762
Electricity (losses as %)	34.50 %	36.73 %
Water (losses in units)	3,825,748	1,709,255
Water (losses as %)	54.85 %	36.15 %

Increase in water losses is due to aged infrastructure and lack of bulk meters to monitor distribution.

Decrease in electricity is due to the implementation of a credit control policy and implementation of ARM meters, even though there is still challenges with illigal connections, aged infrastructure and data cleansing.

27. Contracted services

Air conditioner and lift services	68,656	56,343
Information technology services	6,803,554	7,440,088
Pre-paid vending contract services	2,279,870	2,756,820
Professional services	16,541,856	9,567,436
Security services	13,248,311	12,436,619
Specialist services	-	189,043
	38,942,247	**32,446,349**

28. Depreciation and amortisation

Property, plant and equipment	59,355,638	62,037,073
Intangible assets	6,854	30,844
	59,362,492	**62,067,917**

29. Employee related costs

Cell phone allowances	57,981	62,100
Contributions for UIF	814,310	776,080
Group life contributions	1,257,489	1,117,619
Leave pay accrual charge	3,249,878	4,644,737
Medical aid contributions	6,303,670	5,700,887
Other payroll levies	45,866	43,697
Overtime and leave payments	13,373,141	12,917,236
Pension fund contributions	15,523,970	14,360,743
Pensioners medical aid contributions	1,930,209	1,763,520
Performance bonus	324,797	2,266,330
Post - retirement employee benefits	1,513,000	2,047,002
SDL	1,151,082	1,079,182
Salaries and wages	81,151,623	75,434,089
Standby and shift allowance	4,723,760	2,259,302
Travel and other allowances	4,371,455	4,048,467
	135,792,231	**128,520,991**

29. Employee related costs (continued)

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Dlamini TBW - Municipal Manager

	2014	2013
Annual remuneration	757,094	600,460
Backpay	-	8,981
Contributions to medical aid	5,137	29,523
Contributions to pension funds	22,637	134,079
Contributions to UIF	468	1,837
Leave pay	49,280	-
Travel allowance	16,000	96,000
	850,616	**870,880**

The Municipal Manager resigned on 09 September 2013.

Remuneration of Zungu MW - Acting Municipal Manager

	2014	2013
Annual remuneration	236,250	-
Backpay	270,000	-
Contributions to UIF	297	-
Costs recovered	(248,000)	-
Travel allowance	33,750	-
	292,297	**-**

The Municipal Manager appointment was a secondment by Department of Cooperative Governance and Traditional Affairs from the 17 December 2013 to 17 March 2014. From 18 March 2014 the Municipal Manager became an employee of the municipality in an acting capacity.

Remuneration of Lengwate TM - Chief Finance Officer

	2014	2013
Annual remuneration	157,360	568,245
Contributions to medical aid	4,640	18,061
Contributions to UIF	595	1,712
Leavepay	103,680	-
Travel allowance	18,000	72,000
	284,275	**660,018**

The Chief Finance Officer resigned on 30 September 2013.

Remuneration of Maluleka DI - Director: Public Safety and Security

	2014	2013
Annual remuneration	654,157	536,270
Backpay	18,900	10,282
Contribution to medical aid	32,303	29,268
Contribution to pension funds	-	23,898
Contributions to UIF	1,785	1,837
Travel allowance	60,000	110,000
	767,145	**711,555**

Figures in Rand	2014	2013

29. Employee related costs (continued)

Remuneration of Maimela NL - Director: Corporate Services

Annual remuneration	475,020	426,307
Backpay	15,115	23,698
Contributions to medical aid	19,350	18,587
Contributions to pension funds	107,830	81,723
Contributions to UIF	1,785	1,712
Travel allowance	148,045	117,961
	767,145	**669,988**

Remuneration of Netshishivhe HE - Director: Engineering

Annual remuneration	-	109,457
Contribution to medical aid	-	4,018
Contribution to pension funds	-	9,594
Contributions to UIF	-	417
Travel allowance	-	13,953
	-	**137,439**

The Director: Engineering resigned on 30 November 2012.

Remuneration of Sibeko BC - Director: Community and Health

Annual remuneration	377,452	-
Contributions to pension funds	69,008	-
Contributions to UIF	1,041	-
	447,501	**-**

The Director: Community and Health was appointed on 01 December 2013.

Remuneration of Magudulela SR - Director: Technical Services

Annual remuneration	278,689	-
Backpay	8,197	-
Contribution to pension funds	63,115	-
Contributions to UIF	1,041	-
Travel allowance	105,000	-
	456,042	**-**

The Director: Technical Services was appointed on 01 December 2013.

Total employee related cost	**139,657,252**	**131,570,871**

30. Finance costs

Finance leases	492,297	735,840
Non-current borrowings	2,300	5,041
Provision for environmental rehabilitation cost	1,770,984	1,450,308
Trade and other payables	6,977,273	8,415,200
	9,242,854	**10,606,389**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

31. General expenses

Advertising	361,100	215,972
Auditors remuneration	3,170,259	2,950,387
Awareness campaign	-	5,858
Bank charges	829,341	716,113
Chemicals	2,593,891	2,070,547
Cleaning	211,881	240,317
Clothing and uniform	663,406	464,827
Collection costs	3,557	1,399
Computer expenses	6,157	516
Conferences and seminars	1,425,665	1,451,014
Consumables	259,469	134,775
Covering of dumping site	2,493,053	4,856,255
Departmental administration charges	2,595,073	-
Disaster mitigation programme	79,524	124,398
Donations	800	12,300
Electricity connections	253,498	424,542
Entertainment	53,933	1,225,198
Fines and penalties	770,409	636,640
Fuel and oil	411,478	331,774
Government research	163,466	460,555
Grant expenditure	3,696,456	2,701,821
Grave numbers	31,734	44,762
Insurance	1,550,807	1,072,630
Inventory write offs	4,681,551	1,216,839
Lease expenses	936,085	627,428
Magazines, books and periodicals	46,565	14,310
Medical expenses	9,110	21,294
Monitoring services	18,000	235,906
Motor vehicle expenses	5,972,090	5,340,909
Pauper burials	18,696	18,997
Performance appraisals & strategic planning	137,712	64,015
Postage and courier	857,766	1,007,480
Printing and stationery	1,039,581	1,065,483
Private works	877,479	572,511
Professional fees	1,481,659	-
Project maintenance costs	12,019	22,779
Promotions	49,374	65,056
Refuse	614	118,996
Resettlement of squatters	4,450	-
Scrapped assets	1,781,255	1,087,853
Study bursaries	67,315	221,133
Subscriptions and membership fees	1,538,592	2,639,894
Subsidies for indigents	26,650,091	12,817,449
Technical department	7,632	6,827
Telephone and fax	806,325	695,649
Title deed search fees	34,466	17,854
Training	1,772	668,281
Travel	11,912	41,050
Valuation roll	320,684	159,149
Ward committees and community participation	2,130,598	1,295,230
Water supply	378,451	7,164,785
	71,496,801	**57,349,757**

Figures in Rand	2014	2013

32. Remuneration of Councillors

	2014	2013
Mayor	724,669	689,660
Executive Committee	1,646,157	1,566,264
Speaker	583,908	555,602
Councillors	7,773,063	6,946,604
	10,727,797	**9,758,130**

2014

Executive Mayor	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Bongwe JS	459,001	20,868	175,950	68,850	724,669

Executive Committee	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Madini VCN	329,224	20,868	131,963	66,664	548,719
Mashinini NG	329,224	20,868	131,963	66,664	548,719
Nkosi MP	344,251	20,868	131,963	51,637	548,719
	1,002,699	**62,604**	**395,889**	**184,965**	**1,646,157**

Speaker	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Vilakazi BM	352,174	20,868	140,760	70,106	583,908

Councillors	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Blignaut JDA	122,674	20,868	52,785	35,681	232,008
Breydenbach Z	137,700	20,868	52,785	20,655	232,008
Dhludhlu ZC	137,700	20,868	52,785	20,655	232,008
Dladla KH	137,700	20,868	52,785	20,655	232,008
Greyling GS	137,700	20,868	52,785	20,655	232,008
Jele SL	137,700	20,868	52,785	20,655	232,008
Litau DJ	137,700	20,868	52,785	20,655	232,008
Lukhele MC	130,857	20,868	52,785	27,498	232,008
Mabasa FJ	137,700	20,868	52,785	20,655	232,008
Mabunda SD	137,700	20,868	52,785	20,655	232,008
Mabuza BI	137,700	20,868	52,785	20,655	232,008
Malaza STT	137,700	20,868	52,785	20,655	232,008
Maseko BP	137,700	20,868	52,785	20,655	232,008
Mashiane SPE	137,700	20,868	52,785	20,655	232,008
Mathebula SC	137,700	20,868	52,785	20,655	232,008
Mhlanga MJ	137,700	20,868	52,785	20,655	232,008
Mnisi LP	137,700	20,868	52,785	20,655	232,008
Msezane SEC	137,700	20,868	52,785	20,655	232,008
Msibi SJ	137,700	20,868	52,785	20,655	232,008
Msimango TG	137,700	20,868	52,785	20,655	232,008
Ndlovu BNN	122,674	20,868	52,785	35,681	232,008
Ngwenya BR	122,674	20,868	52,785	35,681	232,008
Ngwenya TC	137,700	20,868	52,785	20,655	232,008
Nkosi DS	137,700	20,868	52,785	20,655	232,008
Nkosi PB	137,700	20,868	52,785	20,655	232,008
Nkosi SJ	137,700	20,868	52,785	20,655	232,008
Nkosi ZJ	137,700	20,868	52,785	20,655	232,008
Puwani BS	122,674	20,868	52,785	35,681	232,008
Sibanyoni JH	137,700	20,868	52,785	20,655	232,008
Sibeko PT	128,935	20,868	52,785	29,420	232,008
Sibaya BI (Chairperson Section 79 MSA)	213,873	20,868	81,985	32,081	348,807
Swart HF	137,700	20,868	52,785	20,655	232,008

32. Remuneration of Councillors (continued)

Vilakazi SE	122,674	20,868	52,785	35,681	232,008
	4,529,544	**688,644**	**1,771,105**	**783,779**	**7,773,063**

2013

Executive Mayor	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Bongwe JS	437,144	19,872	167,572	65,072	689,660

Executive Committee	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Madini VCN	312,831	19,872	125,679	63,706	522,088
Mashinini NG	312,831	19,872	125,679	63,706	522,088
Nkosi MP	327,857	19,872	125,679	48,680	522,088
	953,519	**59,616**	**377,037**	**176,092**	**1,566,264**

Speaker	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Vilakazi BM	334,689	19,872	134,057	66,984	555,602

Councillors	Remuneration	Cell phone allowance	Travelling allowance	Municipality contribution	Total remuneration
Blignaut JDA	129,891	12,396	50,271	20,425	212,983
Breydenbach Z	131,144	12,396	50,271	19,172	212,983
Dhludhlu ZC	131,144	12,396	50,271	19,172	212,983
Dladla KH	131,144	12,396	50,271	19,172	212,983
Greyling GS	131,144	12,396	50,271	19,172	212,983
Jele SL	131,144	12,396	50,271	19,172	212,983
Litau DJ	115,501	10,896	44,190	17,798	188,385
Lukhele MC	54,643	5,165	20,946	8,196	88,950
Mabasa FJ	131,144	12,396	50,271	19,172	212,983
Mabunda SD	118,760	12,396	50,271	31,556	212,983
Mabuza BI	131,144	12,396	50,271	19,172	212,983
Malaza STT	131,144	12,396	50,271	19,172	212,983
Malinga MV	29,930	2,937	11,473	4,864	49,204
Maseko BP	131,144	12,396	50,271	19,172	212,983
Mashiane SPE	127,387	12,396	50,271	22,929	212,983
Mathebula SC	131,144	12,396	50,271	19,172	212,983
Mhlanga MJ	131,144	12,396	50,271	19,172	212,983
Mnisi LP	131,144	12,396	50,271	19,172	212,983
Msezane SEC	114,277	12,396	50,271	36,039	212,983
Msibi SJ	131,144	12,396	50,271	19,172	212,983
Msimango TG	131,144	12,396	50,271	19,172	212,983
Ndlovu BNN	131,144	12,396	50,271	19,172	212,983
Ngwenya BR	115,967	12,396	50,271	34,349	212,983
Ngwenya TC	131,144	12,396	50,271	19,172	212,983
Nkosi DS	131,144	12,396	50,271	19,172	212,983
Nkosi PB	118,617	12,396	50,271	31,699	212,983
Nkosi SJ	131,144	12,396	50,271	19,172	212,983
Nkosi ZJ	131,144	12,396	50,271	19,172	212,983
Puwani BS	112,626	12,396	50,271	37,690	212,983
Sibanyoni JH	131,144	12,396	50,271	19,172	212,983
Sibeko PT	116,118	12,396	50,271	34,198	212,983
Sibaya BI	131,144	12,396	50,271	19,172	212,983
Swart HF	131,144	12,396	50,271	19,172	212,983
Vilakazi SE	114,935	12,396	50,271	35,379	212,981

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

32. Remuneration of Councillors (continued)

	4,153,820	**403,274**	**1,635,010**	**736,906**	**6,946,604**

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

In-kind benefits

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

The Mayor has the use of a separate Council owned vehicle and driver for official duties.

The Mayor and Speaker have the support of personal assistants.

33. Repairs and maintenance

	2014	2013
Buildings and sites	1,359,339	2,474,413
Fire fighting	156,151	38,208
Furniture and office equipment	1,738,569	1,525,230
Roads and stormwater	961,206	1,713,871
Network water, sewerage	8,321,404	9,688,995
Vehicles	2,337,675	1,931,633
	14,874,344	**17,372,350**

34. Cash generated from operations

	2014	2013
Deficit	(34,017,954)	(150,778,418)
Adjustments for:		
Depreciation and amortisation	59,962,606	62,067,917
Finance cost - finance leases	492,297	735,840
Allowance for debt impairment	16,852,170	79,058,737
Movements in operating lease	(3,301)	-
Movements in retirement benefit assets and liabilities	2,318,000	1,686,767
Movements in provisions	1,770,984	1,450,308
Changes in working capital:		
Inventories	4,214,799	18,136,235
Consumer receivables	(29,499,753)	(49,957,404)
Other receivables from non-exchange transactions	(6,231,989)	8,110,045
Payables from exchange transactions	48,164,765	94,592,723
VAT	(1,294,780)	(8,148,539)
Unspent conditional grants and receipts	3,650,519	9,656,028
Consumer deposits	1,426,089	939,890
	67,804,452	**67,550,129**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	22,948,740	22,533,134
• Operating expenditure	15,973,211	54,211,383
	38,921,951	**76,744,517**

Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	5,231,009	1,465,000

This committed expenditure relates to property, plant and equipment and operating expenditure, and will be financed by available bank facilities, retained surplusses,and existing cash resources.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

36. Contingent liabilities

The municipality is involved in several litigation matters. The municipality’s attorneys and management have estimated that these matters could result in an estimated liability of R15 803 187. The likelihood of these legal actions being successful are subject to a number of external variables and at this point is deemed to be unlikely.

1. A civil action has been brought against the municipality relating to goods and mechanical services rendered. A preliminary court date has been set for 27 October 2014. Should the court find in favour of the plaintiff the estimated liability of the municipality amounts to R92 339.

2. A case has been brought against the municipality regarding disputed sale of land. No court date has been set. The claim amount is set at R10 000 000.

3. A civil action has been brought against the municipality for damages suffered due to municipal negligence by not repairing damage to a pavement. The claim amount is set at R51 220.

4. A civil action has been brought against the municipality for damages suffered due to municipal negligence by failing to replace a stolen meter lid. The claim amount is set at R52 951.

5. A case has been brought against the municipality in respect of annual licence fees, arrear licence fees and penalties for late licencing in respect of a crane previously owned by the municipality. The plaintiff alleges that they paid the amount in the bona fide but mistaken belief that the amount was due. The matter has been pending for the past 2 years. The estimated liability is R500 000.

6. A case has been brought against the municipality for personal injuries suffered as a result of a motor cycle accident. The matter has been pending for the past 2 years. The estimated liability is R800 000.

7. A case has been brought for damages suffered due to a road collision. The estimated liability is R199 400.

8. A case has been brought against the municipality for unlawful disconnection of electricity by a Housing scheme. The estimated liability is R350 000.

9. A civil action has been brought against the municipality relating to goods and services rendered. A preliminary court date has been set for 3 November 2014. Should the court find in favour of the plaintiff the estimated liability of the municipality would total R12 189.

10. An application for review by the municipality has been requested regarding an arbitration award granted in favour of a former employee. The former employee has filed a notice of appeal, which the municipality has opposed. The estimated liability is R1 200 000.

11. An arbitration application has been brought by a former employee against the municipality. The municipality has opposed the application and the application for review was successful. The former employee has filed a notice of appeal which the municipality has opposed. The estimated liability is R500 000.

12. The municipality has filed an appeal against the case brought by SAMWU regarding the dismissal of two employees. The estimated liability for the two employees is R106 558 and R148 823 respectively.

13. A civil action has been brought against the municipality relating to services rendered. The estimated liability is R74 706.

14. A civil claim has been brought against the municipality by a former employee who was injured on duty. The estimated liability is R1 500 000.

15. A civil action has been brought against the municipality for damages suffered as a result of a vehicle collision that occurred during the performance of duties by municipal employees. The estimated liability is R65 000.

16. A civil action was brought against the municipality for damages suffered due to a power surge. The estimated liability is R150 000.

Figures in Rand	2014	2013

36. Contingent liabilities (continued)

Contingent assets

1. The municipality has brought a case regarding the transfer of land purchased. The defendant refuses to transfer the land due to guarantees being issued after the required date. The estimated inflow amounts to R500 000.

2. The municipality brought a case against a former employee for non-payment of a loan to purchase a motor vehicle. The estimated inflow amounts to R50 000.

3. The municipality brought a case against a former employee for breach of contract, regarding damages in the form of tuition fees paid by the municipality. The estimated inflow amounts to R10 000.

4. The municipality has brought a case against an engineer and contractor due to a collapsed reservoir elevator in Wesselton. The estimated liability is R200 000.

37. Related parties

Relationships
Members of key management
Refer to note 28 and 31

Compensation to accounting officers and all employees		
Defined contribution plans	1,039,000	1,209,002

38. Change in estimate

Fines

Revenue from fines was initially recognised as R 2 209 600. Due to withdrawals, cancellations and reductions through the court a change in estimate of fines revenue of R315 643 was recognised. The effect of this revision has no impact on future periods.

There is no impact on the cash flow statement.

Property,plant and equipment and intangible assets

Depreciable assets' remaining useful ives were reassessed at the beginning of the current reporting period to reflect the actual pattern of service potential derived from the assets.

The effect on the current year:	
Decrease in depreciation	(R44 901)
Increase in Property, plant and equipment	R32 030
Increase in Intangible assets	R6 771
Increase in loss on sale of assets	R6 100

39. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a description of each individual prior period error followed by a summary of the total effect of the prior period errors on the amounts previously disclosed.

1. The receivables from non-exchange revenue was overstated in the prior year with amounts overspent by the municipality incorrectly raised as receivables. The items impacted were VAT on MIG grant and Tuberculousis Hospital expenses.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Prior period errors (continued)

Decrease in receivables from non-exchange transactions	-	(1,493,153)
Decrease in accumulated surplus	-	1,493,153
	-	-

2. The trade payables from exchange transactions incorrectly included an amount that had been settled prior to year end. These payables totalled R544 109.

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

Adjustments affecting the statement of financial position		
Decrease in trade payables from exchange transactions	-	544,109
Decrease in VAT receivable	-	(24,939)
Increase in accumulated surplus	-	(519,170)
	-	-

3. Department of Water Affairs Grant incorrectly recorded as unspent for prior years.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Decrease in unspent conditional grants	-	568,247
Increase in accumulated surplus	-	(568,247)
	-	-

4. Receivables from non exchange transactions did not include amounts due by Gert Sibande of R491 962 and sundry amounts due as a result of a cut-off problem to the value of R350 071

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

Adjustments affecting the statement of financial position		
Increase in receivables from non-exchange transactions	-	842,034
Increase in VAT receivable	-	(42,981)
Increase in accumulated surplus	-	(799,053)
	-	-

5. The bank account was previously disclosed including the reconciling items to the value of R47 842 968. The reconciling items have been allocated to the respective sections of the statement of financial position.

Adjustments affecting the statement of financial position		
Decrease in bank overdraft	-	47,842,968
Increase in trade payables from exchange transactions	-	(49,139,826)
Decrease in trade receivables from non-exchange transactions	-	1,296,858
	-	-

6. The municipality has in the past incorrectly recognised amounts as revenue before the 3 year prescription period had passed. The amounts have been corrected in order to comply with the Prescription Act.

Adjustments affecting the statement of financial position		
Increase in trade payables from exchange transactions	-	(5,978,975)
Decrease in accumulated surplus	-	4,060,467
	-	**(1,918,508)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Prior period errors (continued)

Adjustments affecting the statement of financial performance

Decrease in other income	-	1,918,508

7. The prior year inventory included an unsubstantiated write off amount of R1 404 804. The amount has been corrected and the inventory records adjusted to reflect the correct values at year end.

Adjustments affecting the statement of financial position

Increase in inventory	-	1,404,805

Adjustments affecting the statement of financial performance

Increase in expenditure	-	(1,404,805)

8. Raising of net receivables for fines per GRAP 23 due to the implementation of IGRAP 1.

Adjustments affecting the statement of financial position

Increase in receivables from non-exchange transactions	-	499,599
Increase in accumulated surplus	-	(260,802)
	-	**238,797**

Adjustments affecting the statement of financial performance

Increase in fine income	-	(1,326,650)
Increase in impairment of trade receivables	-	1,087,853
	-	**(238,797)**

9. During review of the municipality's accounts some errors were identified in the recording of VAT.

Adjustments affecting the statement of financial position

Increase in VAT receivable	-	1,390,312
Decrease in receivables from non-exchange transactions	-	(4,175)
Increase in trade payables from exchange transactions	-	(1,151)
	-	**1,384,986**

Adjustments affecting the statement of financial performance

Decrease in bulk purchases	-	(544,354)
Decrease in contracted services	-	(164,409)
Decrease in employee costs	-	(12,852)
Decrease in general expenditure	-	(267,641)
Decrease in repairs and maintenance	-	(395,730)
	-	**(1,384,986)**

10. The prior period allowance for impairment was reviewed based on additional information on long outstanding receivables. The result is an increase in impairment of receivables.

Adjustments affecting the statement of financial position

Decrease in receivable from exchange transactions	-	(25,192,799)
Decrease in receivables from non-exchange transactions	-	(9,782,033)
	-	**(34,974,832)**

Adjustments affecting the statement of financial performance

Increase in impairment of receivables	-	34,974,832

11. Gert Sibande District Municipality performed repairs and maintenance on behalf of the municipality. The amounts have not been recognised as grant income in the prior year.

Figures in Rand	2014	2013

39. Prior period errors (continued)

Adjustments affecting the statement of financial performance		
Increase in grant income	-	(2,275,707)
Decrease in repairs and maintenance	-	2,275,707
	-	**-**

12. Undeveloped Erven with undetermined use was previously incorrectly disclosed as inventory. The amounts have been corrected as it was duplicated in the land, buildings and investment property register.

Adjustments affecting the statement of financial position		
Decrease in inventories	-	(4,310,390)
Increase in accumulated surplus	-	4,359,290
	-	**48,900**

Adjustments affecting the statement of financial performance		
Increase in sale of erven	-	(48,900)

13. Receivables from Rates income was incorrectly classified as receivables from exchange transactions in the previous year.

Adjustments affecting the statement of financial position		
Decrease in receivables from exchange transactions	-	(27,663,838)
Increase in receivables from non-exchange transactions	-	27,663,838
	-	**-**

14. The Municipal Systems Infrastructure Grant was previously incorrectly disclosed as part of Payables from exchange transactions.

Adjustments affecting the statement of financial position		
Increase in unspent conditional grants	-	(790,000)
Decrease in trade payables from exchange transactions	-	790,000
	-	**-**

15. Non-municipal property were previously recognised as municipal property. The impact thereof is that assets, depreciation, accumulated depreciation and accumulated surplus were being overstated.

Adjustments affecting the statement of financial position		
Increase property, plant and equipment	-	4,415

Adjustments affecting the statement of financial performance		
Decrease in depreciation	-	(4,415)

16. Duplicate assets were previously included in the asset register. The impact thereof is that assets, depreciation, accumulated depreciation and accumulated surplus were being overstated.

Adjustments affecting the statement of financial position		
Increase in property, plant and equipment	-	3,978

Adjustments affecting the statement of financial performance		
Decrease in depreciation	-	(3,978)

17. Assets were noted that was previously not included in the asset register. The impact thereof is that assets, depreciation, accumulated depreciation and accumulated surplus were being understated.

Figures in Rand	2014	2013

39. Prior period errors (continued)

Adjustments affecting the statement of financial position		
Decrease in property, plant and equipment	-	(3,082)

Adjustments affecting the statement of financial performance		
Increase in depreciation	-	3,082

18. Software licences were incorrectly included in the movable asset register at a negative value, this resulted in an understatement in the assets and an overstatement of accumulated depreciation, depreciation and accumulated surplus

Adjustments affecting the statement of financial position		
Increase in property, plant and equipment	-	4,302

Adjustments affecting the statement of financial performance		
Decrease in depreciation	-	(4,302)

19. Municipal vehicle was incorrectly included in the vehicle register and the furniture and fittings register, this resulted in an overstatement in the assets, accumulated depreciation, depreciation and accumulated surplus

Adjustments affecting the statement of financial position		
Increase in property, plant and equipment	-	2,644

Adjustments affecting the statement of financial performance		
Decrease in depreciation	-	(2,644)

20. Review of the 2013 register resulted in changes to the capital replacement cost, estimated useful life and correction of calculation errors made on 2013 register. The comparative statements for 2012/13 have been restated.

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

Adjustments affecting the statement of financial position		
Decrease in Property, plant and equipment	-	(151,164,350)
Decrease in accumulated surplus	-	141,155,317
	-	**(10,009,033)**

Adjustments affecting the statement of financial performance		
Increase in Depreciation	-	10,009,033

21. Detail investigation into the projects resulted in the capitalisation of completed projects at actual cost and the update of the work-in-progress register. The comparative statements for 2012/13 have been restated.

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

Adjustments affecting the statement of financial position		
Increase in property, plant and equipment	-	11,313,765
Increase in VAT receivable	-	378,899
Increase in receivables from exchange transactions	-	449,245
Increase in payables from exchange transactions	-	(158,918)
Increase in accumulated surplus	-	(14,962,280)
	-	**(2,979,289)**

Adjustments affecting the statement of financial performance		
Increase in grant expenditure	-	2,979,290

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Prior period errors (continued)

22. Non-municipal property were previously recognised as municipal property. The impact thereof is that assets, depreciation, accumulated depreciation and accumulated surplus were being overstated.

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

Adjustments affecting the statement of financial position		
Decrease in leased printer assets	-	(254,608)
Decrease in accumulated depreciation	-	216,251
Decrease in accumulated surplus	-	53,395
	-	**15,038**

Adjustments affecting the statement of financial performance		
Decrease in depreciation	-	(15,038)

23. Leased vehicles were found to be duplicated in the vehicles register. The duplicated vehicles were accounted for in the vehicles register at a unsupported value. The lease terms on some vehicles also came to an end in prior periods which was not accounted for in prior years. The impact thereof was that leased asset cost, vehicles accumulated depreciation, depreciation and accumulated surplus to be overstated and vehicles cost, accumulated depreciation, depreciation and accumulated surplus were understated.

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

Adjustments affecting the statement of financial position		
Decrease in other property, plant and equipment	-	(2,441,959)
Decrease in accumulated surplus	-	2,521,397
	-	**79,438**

Adjustments affecting the statement of financial performance		
Decrease in depreciation	-	(79,438)

24. During reconciliation of retentions, duplicate processing was identified and corrected

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

Adjustments affecting the statement of financial position		
Increase in accumulated surplus	-	(101,287)
Decrease in trade payables from exchange transactions	-	101,287
	-	**-**

25. Some land, building and investment property were found not to be the property of the municipality. Investment property were also found to be incorrectly classified and should have been disclosed as property plant and equipment.

Adjustments affecting the statement of financial position		
Decrease in property plant and equipment	-	(55,921,168)
Decrease in investment property	-	(8,340,939)
Decrease in accumulated surplus	-	62,375,473
	-	**(1,886,634)**

Adjustments affecting the statement of financial performance		
Increase in depreciation	-	1,886,634

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

40. Comparative figures

Certain comparative figures have been reclassified.

41. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At amortised cost	Total
Cash and cash equivalents	489,616	489,616
Receivables from exchange transactions	61,822,916	61,822,916
Receivables from non-exchange transactions	32,384,908	32,384,908
	94,697,440	**94,697,440**

Financial liabilities

	At amortised cost	Total
Consumer deposits	9,374,414	9,374,414
Finance lease obligation - current portion	2,247,971	2,247,971
Finance lease obligation - non-current portion	1,788,534	1,788,534
Payable from exchange transactions	340,274,031	340,274,031
Unspent conditional grants and receipts	26,705,403	26,705,403
	380,390,353	**380,390,353**

2013

Financial assets

	At amortised cost	Total
Cash and cash equivalents	19,872,279	19,872,279
Receivables from exchange transactions	49,165,257	49,165,257
Receivables from non-exchange transactions	26,152,919	26,152,919
	95,190,455	**95,190,455**

Financial liabilities

	At amortised cost	Total
Consumer deposits	7,948,325	7,948,325
Finance lease obligation - current portion	2,446,168	2,446,168
Finance lease obligation - non-current portion	2,997,398	2,997,398
Other financial liabilities	22,259	22,259
Payable from exchange transactions	291,995,707	291,995,707
Unspent conditional grants and receipts	23,054,884	23,054,884
	328,464,741	**328,464,741**

42. Risk management

Financial risk management

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

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.

Budgeted cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. Surplus cash are held as short term deposits to assist in settling future commitments.

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

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	9,374,414	-	-	-
Finance lease obligations	2,247,971	1,788,534	-	-
Payables from exchange transactions	340,274,031	-	-	-

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	7,948,325	-	-	-
Finance lease obligations	2,446,168	2,997,398	-	-
Other financial liabilities	22,259	-	-	-
Payables from exchange transactions	291,995,707	-	-	-

Credit risk

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

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

Financial instrument	2014	2013
Cash and cash equivalents	489,616	19,872,279
Receivables from exchange transactions	61,822,916	49,165,257
Receivables from non-exchange transactions	32,384,908	26,152,919

Market risk

Interest rate risk

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

43. Going concern

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

44. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipality's operations.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

45. Unauthorised expenditure

Opening balance	89,068,863	-
Overspending of expenditure	90,522,161	89,068,863
	179,591,024	**89,068,863**

46. Fruitless and wasteful expenditure

Interest on arrear accounts - Eskom	6,974,543	9,508,983
Interest and penalties on late submission - SARS	21	44,659
Interest on arrear accounts - Other payables from exchange transactions	3,437	1,532
	6,978,001	**9,555,174**

47. Irregular expenditure

Opening balance	30,942,385	4,644,111
Add: Irregular expenditure - current year	34,091,631	26,298,274
	65,034,016	**30,942,385**

Analysis of expenditure awaiting condonation per age classification

Current year	34,091,631	26,298,274
Prior years	30,942,385	4,644,111
	65,034,016	**30,942,385**

Details of irregular expenditure

	Disciplinary steps taken/criminal proceedings	
Non compliance of SCM	Awaiting condonement - current year	34,091,631
Non compliance of SCM	Awaiting condonement - prior year	30,942,385
		65,034,016

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1,276,385	363,245
Current year subscription / fee	1,487,865	1,297,548
Amount paid - previous years	(1,283,313)	(384,408)
	1,480,937	**1,276,385**

Audit fees

Opening balance	-	168,830
Current year subscription / fee	3,170,259	3,001,859
Amount paid - current year	(3,170,259)	(3,001,859)
Amount paid - previous years	-	(168,830)
	-	**-**

Figures in Rand	2014	2013

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

PAYE and UIF

	2014	2013
Opening balance	6,989	-
Current year subscription / fee	17,714,164	16,065,045
Amount paid - current year	(16,183,250)	(16,058,056)
Amount paid - previous years	(6,989)	-
	1,530,914	**6,989**

Pension and medical aid deductions

	2014	2013
Current year subscription / fee	23,580,217	22,362,773
Amount paid - current year	(22,158,117)	(22,362,773)
	1,422,100	**-**

VAT

	2014	2013
VAT receivable	15,888,846	14,594,066

VAT output payables and VAT input receivables are shown in note 6.

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

Councillors' arrear consumer accounts

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

30 June 2014	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Dladla KH	832	10,423	11,255
Malaza STT	616	4,690	5,306
Puwani BS	604	4,347	4,951
Sibiya BI	1,895	32,884	34,779
	3,947	**52,344**	**56,291**

30 June 2013	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Dhludhlu KH	259	249	508
Dladla KH	-	4,155	4,155
Mabasa FJ	27	10,041	10,068
Nkosi TS	756	-	756
Sibiya BI	443	26,673	27,116
	1,485	**41,118**	**42,603**

49. Deviation from supply chain management regulations

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

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

49. Deviation from supply chain management regulations (continued)

Supplier:	Amount:	Reason for deviation
Razhoo enterprise	R 21,660	Strip and quote for the compressor for the electrical and mechanical workshops.
Mtsweni and Els	R 130,658	Urgent repairs to the sewer network in Ext 32.
Ermelo electro motors	R 18,279	Urgent strip and quote of pump for Chrissiesmeer. Pump needed to provide water to town.
De Wit se garage	R 1,250	Strip and quote for alternator of fire engine BKP679MP.
LP elektries	R 2,100	Call-out to repair power at Douglas dam over the long week - end, as per the MM's instruction.
Lekwa consulting	R 10,003	Variation order on tender. Extra registration work done for green drop registration at Department of Water Affairs.
Midmuzik media	R 8,288	Sole supplier of Learner's Licence material as prescribed by Department of Transport.
Yeltech	R 3,249	Sole supplier that does deliveries to Ermelo.
Shesha towing	R 2,794	On Sunday 11 August 2013, a hazardous material truck with Sodium Cyanide overturned on the Amsterdam Piet Retief Rd. The fire fighters responded with the Hazmat Response Unit Nissan CCV407MP, F202047. With their departure it was established that the clutch broke. The three towing services in Ermelo capable of towing heavy vehicles were phoned and only Sheswa towing had a vehicle available to assist with the towing of the hazmat truck back to Ermelo Fire Station.
Highveld forest	R 6,591	Strip and quote, also obtains genuine spare parts.
Highveld forest	R 860	Strip and quote, also obtains genuine spare parts.
Green sand	R 17,955	Is the sole supplier for grass and soil chemicals utilised at the stadium.
Ironore trading	R 3,027	Municipality was experiencing many MV cable faults and ring feeders also had faults due to winter overload. TLB of municipality was in workshop for repairs and Iron-Ore trading was the only company available to assist after hours to open the cable trenches.
Government printing works	R 56,875	Sole supplier for legislative forms.
Dimag constructions	R 13,811	Strip and quote for electrical motors and panels.
Highveld fores	R 20,164	Strip and quote of grass cutting machine.
Combo building suppliers	R 2,843	Urgent repairs to sewerage network around town and Wesselton location.
Ermelo Toyota	R 3,393	Toyota Prado registered FPH607MP has to undergo service by the agents at Ermelo Toyota.
Bell equipment	R 8,763	Sole supplier for propshaft and diesel filters for Bell TLB.

49. Deviation from supply chain management regulations (continued)

Jamlen trading cc	R 193,554	Urgent acquisition: Two transformers burnt out at Lothair and Thusi Village Ext 4. Jamlen trading is the only supplier who can deliver within 24 hours after order issued. Municipality did not have that type of transformer in stock.
LP elektries	R 2,500	Urgent repairs.
Triple M	R 14,147	Urgent replacement to resolve telephone problems.
Workshop electronics	R 31,908	Workshop electronics are the sole supplier of calibrating devices as prescribed by SANS10216.
Damos motor engineering	R 140,399	Strip and quote of engine for grader registered CLK169MP.
CAT	R 12,397	Urgent strip and quote of meter reader machines.
Ermelo truck and tractor	R 60,722	Strip and quote of Truck Nissan UD 90 registered DFR007MP.
De Wit se garage	R 4,988	Sole supplier of starter for FAW truck registered DWS373MP.
Circuit meter engineering	R 2,896	Sole supplier for oil for sewer screen machine at the purification plant.
Highveld forest	R 7,489	Sole supplier - service and parts required to be done by an agent.
Highveld forest	R 7,810	Sole supplier - service and parts required to be done by an agent.
RC technology	R 6,778	Strip and repair.
FZ project	R 76,085	Strip and quote for Gallion Grader registered BKR134MP.
Auto door	R 47,310	Sole supplier of the aluminium bay doors and their electrical components as installed at the Ermelo Fire Station and the Breyton Fire Station
Truvelo	R 2,906	Sole manufacturer and supplier.
RC technology	R 6,498	Sole supplier.
National flag	R 27,433	Sole supplier licensed to produce / print national flags.
JWL	R 1,188	Sole supplier.
Conlog	R 199,388	Urgent acquisition of split pre-paid meters.
Conlog	R 199,387	Urgent acquisition -Pre-paid meter, credit dispenser keypad are urgently needed for households.
P.M Sand	R 9,225	Urgent repairs to sewerage line.
Icon enterprises	R 1,995	Urgent delivery of new transformer to installation site.
JWL	R 26,643	Sole supplier - Hydraulic pump for Massey Fergusen, registered DXF621MP.
Hivotech	R 48,393	Strip and quote - blown transformer.

49. Deviation from supply chain management regulations (continued)

Traffic signals	R 299,877	Urgent repairs to traffic light due to a motor vehicle accident causing a malfunction in the traffic light system.
Rouse engineering	R 1,534	Strip and quote - Cherry picker registered DWS377MP.
EEMS (Pty) Ltd	R 85,603	Exceptional case - Electricity tariffs evaluation and proposal for 2014/2015.
Trio hydrolics	R 6,400	Urgent repairs to TLB registered DMG791MP. Urgent repairs required to TLB in order to open mainline at water burst.
Auto door	R 7,085	Sole supplier of the aluminium bay doors and their electrical components as installed at the Ermelo Fire Station and the Breyton Fire Station.
Brake core	R 11,600	Strip and quote - Isuzu truck registered BKW141MP.
Damos motor engineering	R 119,700	Strip and quote - Engine for CAT payloader registered BKR119MP.
JWL	R 30,425	Sole supplier - Brakes on Massey Ferguson registered DPM827MP.
Middelburg power suppliers	R 450,300	Urgent acquisition - 500 KVA mini-sub blown out, leaving 200 households in Wesselton Extension 2 without power.
CT lab	R 64,374	Sole supplier - CT lab is only company specializing with installation and monitoring of the power quality supply.
Sizanaye electrical	R 163,228	Urgent acquisition - Pole mounted transformers blown up at Extention 6 (Cwebezela). 150 households without power due to blown transformers.
Joylolo trading	R 78,000	Urgent acquisition - 100KVA 11KVA/415V pole mounted transformer blown up at Ithafa Secondary and Water Tower.

50. Budget differences

Material differences between budget and actual amounts

1. Facilities was not rented out and equipment not in good order to be rented out.

2. Additional sale on erven.

3.The interest on outstanding debtors increased because of the increasing debt book, this does not mean the interest was collected.

4. Recognition of fines on the accrual basis.

5. Infrastructure assets build and donated to the municipality by the district municipality.

6. Capital grants were not included in operational budget and unspent of previous years was not included in budget.

7. Overtime high due to high vacancy rate. Standby, shift allowance and night shift allowance increased due to new service agreement from Bargaining council. Council fleet is deteriorated and employees were paid for using their own vechiles to perform their duties.

8. Updated asset register.

9. Store shortage.

10. Revenue enhancement strategy, planning for 95% collection rate.

11. Cash flow challenges reduce the expense on repair and maintenance.

12. Water account outstanding taken into account.

13. Grant Thornton was appointed by acting Municipal Manager. Security control expenses increased due to additional security.

14. Reduced spending due to cash flow challenges.

Appendix A

Schedule of external loans as at 30 June 2014

	Loan Number	Redeemable	Balance at 30 June 2013 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2014 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
	61002213	30 June 2014	17,890	-	17,890	-	-	-
	61002567	30 June 2014	16,648	-	16,648	-	-	-
			34,538	**-**	**34,538**	**-**	**-**	**-**
Total external loans			**34,538**	**-**	**34,538**	**-**	**-**	**-**