NDLAMBE LOCAL MUNICIPALITY

Financial statements
for the year ended 30 June 2014

Nature of business and principal activities	Local Government
Accounting Officer	R Dumezweni
Business address	47 Campbell Street Port Alfred 6170
Postal address	P O Box 13 Port Alfred 6170
Bankers	First National Bank
Auditors	Auditor General

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

The financial statements set out on pages 3 to 57, which have been prepared on the going concern basis, were approved by the on 30 November 2014 and were signed on its behalf by:

Accounting Officer
Designation

Statement of Financial Position as at 30 June 2014

Figures in South African Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	3	25 564 152	30 846 770
Receivables from non-exchange transactions	4	12 828 035	6 807 661
Receivables from exchange transactions	5	13 175 684	26 604 904
Cash and cash equivalents	6	21 278 517	33 523 803
		72 846 388	**97 783 138**
Non-Current Assets			
Investment property	8	36 559 250	36 559 250
Property, plant and equipment	9	682 306 550	655 983 052
Intangible assets	10	227 671	334 891
Heritage assets	11	-	-
Other financial assets	7	134 689	107 494
Operating lease asset		43 852	20 051
		719 272 012	**693 004 738**
Total Assets		**792 118 400**	**790 787 876**
Liabilities			
Current Liabilities			
Consumer deposits	13	1 634 933	1 635 907
Payables	14	32 153 659	28 047 234
Unspent conditional grants and receipts	15	35 932 719	45 319 535
VAT payable	16	2 795 707	3 936 679
Bank overdraft	6	-	5 552 609
Loans from economic entities		355 583	-
Financial liabilities - DBSA	17	3 895 811	3 371 116
Employee benefit obligation	18	1 669 000	1 479 000
Provisions	19	761 000	1 146 938
		79 198 412	**90 489 018**
Non-Current Liabilities			
Financial liabilities - DBSA	17	19 777 482	23 673 153
Employee benefit obligation	18	53 915 000	49 315 000
Provisions	19	14 303 829	12 190 193
Other liability 3		27 572	-
		88 023 883	**85 178 346**
Total Liabilities		**167 222 295**	**175 667 364**
Net Assets		**624 896 105**	**615 120 512**
Net Assets			
Accumulated surplus		625 225 730	615 120 512

Statement of Financial Performance

Figures in South African Rand	Note(s)	2014	2013
Revenue			
Service charges	22	80 701 551	84 222 407
Rendering of services (burial fees)		192 000	170 376
Rental of facilities and equipment		1 068 217	3 437 496
Licences and permits		3 498 356	3 189 776
Rental income		6 044	4 151
Other income	24	2 411 938	4 777 916
Interest received - investment		6 451 856	5 804 527
Property rates	21	57 879 560	50 403 796
Government grants & subsidies	23	117 351 500	125 122 085
Fines		432 880	510 927
Total revenue		**269 993 902**	**277 643 457**
Expenditure			
Personnel	25	(93 733 593)	(80 938 314)
Remuneration of councillors	26	(5 173 279)	(4 973 700)
Depreciation and amortisation		(33 614 527)	(40 490 171)
Impairment loss/ Reversal of impairments		-	(1 054 007)
Finance costs	30	(3 416 999)	(3 260 956)
Debt impairment	27	(15 553 627)	(13 487 448)
Repairs and maintenance		(7 150 945)	(11 410 723)
Bulk purchases	33	(41 080 060)	(35 730 626)
Grants and subsidies paid	32	(8 677 116)	(7 836 312)
General Expenses	34	(51 938 550)	(47 246 016)
Total expenditure		**(260 338 696)**	**(246 428 273)**
Operating surplus		**9 655 206**	**31 215 184**
Gain (loss) on disposal of assets and liabilities		67 235	(117 178)
Fair value adjustments	29	382 778	25 594
		450 013	**(91 584)**
Surplus for the year		**10 105 219**	**31 123 600**

Statement of Changes in Net Assets

Figures in South African Rand	Accumulated surplus	Total net assets
Balance at 01 July 2012	**583 996 912**	**583 996 912**
Changes in net assets		
Surplus for the year	31 123 600	31 123 600
Total changes	31 123 600	31 123 600
Balance at 01 July 2013	**615 120 511**	**615 120 511**
Changes in net assets		
Surplus for the year	10 105 219	10 105 219
Total changes	10 105 219	10 105 219
Balance at 30 June 2014	**625 225 730**	**625 225 730**

Note(s)

Cash Flow Statement

Figures in South African Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Exchange and non-exchange transactions		146 944 040	114 016 594
Grants		108 466 713	121 682 530
Interest income		6 451 856	5 804 527
Other receipts		5 517 128	11 884 963
		267 379 737	253 388 614
Payments			
Employee costs		(103 315 450)	(84 719 493)
Suppliers		(31 380 491)	(102 604 344)
Finance costs		(3 416 999)	(3 028 357)
Other payments		(73 405 394)	(4 570 149)
		(211 518 334)	(194 922 343)
Undefined difference compared to the cash generated from operations note		**329 625**	**-**
Net cash flows from operating activities	35	**56 191 028**	**58 466 271**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(59 499 023)	(61 615 753)
Proceeds from sale of property, plant and equipment	9	(67 235)	174 137
Purchase of other intangible assets	10	-	(317 621)
Other non-cash item		-	(3 400 030)
Net cash flows from investing activities		**(59 566 258)**	**(65 159 267)**
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(2 987 821)	(3 328 388)
Net cash flows from financing activities		**(2 987 821)**	**(3 328 388)**
Net increase/(decrease) in cash and cash equivalents		**(6 363 051)**	**(10 021 384)**
Cash and cash equivalents at the beginning of the year		27 971 194	37 992 578
Cash and cash equivalents at the end of the year	6	**21 608 143**	**27 971 194**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in South African Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	111 253 000	-	**111 253 000**	80 701 551	**(30 551 449)**	
Rendering of services	-	-	**-**	192 000	**192 000**	
Rental of facilities and equipment	1 106 000	-	**1 106 000**	1 068 217	**(37 783)**	
Licences and permits	3 135 000	-	**3 135 000**	3 498 356	**363 356**	
Rental income	-	-	**-**	6 044	**6 044**	
Other income 1	-	-	**-**	355 583	**355 583**	
Other income - (rollup)	11 989 000	-	**11 989 000**	2 410 677	**(9 578 323)**	
Interest received - investment	5 581 000	-	**5 581 000**	6 451 856	**870 856**	
Gains on disposal of assets	486 000	-	**486 000**	-	**(486 000)**	
Total revenue from exchange transactions	**133 550 000**	**-**	**133 550 000**	**94 684 284**	**(38 865 716)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	77 964 000	-	**77 964 000**	57 879 560	**(20 084 440)**	
Government grants & subsidies	69 062 000	637 000	**69 699 000**	117 351 500	**47 652 500**	
Transfer revenue						
Fines	645 000	-	**645 000**	432 880	**(212 120)**	
Total revenue from non-exchange transactions	**147 671 000**	**637 000**	**148 308 000**	**175 663 940**	**27 355 940**	
Total revenue	**281 221 000**	**637 000**	**281 858 000**	**270 348 224**	**(11 509 776)**	
Expenditure						
Personnel	(82 920 000)	(1 207 000)	**(84 127 000)**	(93 733 593)	**(9 606 593)**	
Remuneration of councillors	(5 271 000)	-	**(5 271 000)**	(5 173 279)	**97 721**	
Depreciation and amortisation	(2 813 000)	-	**(2 813 000)**	(33 614 527)	**(30 801 527)**	
Finance costs	(1 516 000)	-	**(1 516 000)**	(3 416 999)	**(1 900 999)**	
Debt impairment	(14 760 000)	-	**(14 760 000)**	(15 553 627)	**(793 627)**	
Repairs and maintenance	(12 177 000)	4 107 000	**(8 070 000)**	(7 150 945)	**919 055**	
Bulk purchases	(41 591 000)	-	**(41 591 000)**	(41 080 060)	**510 940**	
Grants and subsidies paid	(12 054 000)	(637 000)	**(12 691 000)**	(8 677 116)	**4 013 884**	
Loss on disposal of assets	(174 000)	-	**(174 000)**	-	**174 000**	
General Expenses	(107 980 000)	734 000	**(107 246 000)**	(51 938 550)	**55 307 450**	
Total expenditure	**(281 256 000)**	**2 997 000**	**(278 259 000)**	**(260 338 696)**	**17 920 304**	
Operating surplus	**(35 000)**	**3 634 000**	**3 599 000**	**10 009 528**	**6 410 528**	
Gain on disposal of assets and liabilities	-	-	**-**	67 235	**67 235**	
Fair value adjustments	-	-	**-**	382 778	**382 778**	
	-	**-**	**-**	**450 013**	**450 013**	
Surplus before taxation	**(35 000)**	**3 634 000**	**3 599 000**	**10 459 541**	**6 860 541**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in South African Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(35 000)**	**3 634 000**	**3 599 000**	**10 459 541**	**6 860 541**	
Reconciliation						

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

Impairment testing

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. They are significantly affected by a number of factors, including economic.

1.2 Significant judgements and sources of estimation uncertainty (continued)

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 18&19 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

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

Allowance for doubtful debts

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

1.3 Investment property

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

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

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

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

1.3 Investment property (continued)

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.

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

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

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

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

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

Item	**Average useful life**
Land	Indefinite
Buildings	50 Years
Plant and machinery	15 Years
Motor vehicles	5 - 15 Years
Office equipment	3 - 5 Years
IT equipment	3 - 5 Years
Community	10 - 30 Years
Electricity network	20 - 30 Years
Roads	20 Years
Wastewater network	20 Years
Water network	20 Years

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

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

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

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

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

1.4 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.

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

1.5 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

1.5 Intangible assets (continued)

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

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

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

1.6 Heritage assets

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

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

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

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

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

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

Transitional provision

The municipality changed its accounting policy for heritage assets in 2014. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 2015/06/30.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):
- Presentation of Financial Statements (GRAP 1),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.7 Financial instruments

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

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

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.7 Financial instruments (continued)

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents (funds and call accounts)	Financial asset at fair value
Cash and cash equivalents (notice accounts)	Financial asset measured at amortised cost
Other financial assets	Financial asset at fair value

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

Class	Category
Payables	Financial liability measured at amortised cost
DBSA Loan	Financial liability measured at amortised cost

1.7 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.7 Financial instruments (continued)

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

1.8 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

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

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

Operating leases - lessee

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

1.9 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.

1.9 Inventories (continued)

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 weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Identification

1.10 Impairment of cash-generating assets (continued)

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.

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

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

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

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 uses 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.

1.10 Impairment of cash-generating assets (continued)

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

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 entity estimates the recoverable amount of that asset.

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

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

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

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

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

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

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

1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also 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.

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.

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

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.

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

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

Reversal of an impairment loss

The municipality 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.

Redesignation

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

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

1.12 Employee benefits (continued)

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

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 amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.13 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.

1.13 Provisions and contingencies (continued)

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 deficits.

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

1.13 Provisions and contingencies (continued)

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

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.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

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

1.14 Revenue from exchange transactions (continued)

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

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends 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.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets..

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

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

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

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

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

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

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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

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

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

Recognition

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

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

Measurement

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

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

Taxes

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

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

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

Transfers

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

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

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

Fines

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

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

1.15 Revenue from non-exchange transactions (continued)

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

1.16 Investment income

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

1.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The amount of borrowing costs that the Municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred. The municipality has applied the transitional provisions in terms of Directive 4, therefore qualifying assets where commencement dates were prior implementation of GRAP has not been capitalised to the qulaifying asset but expensed in the Statement of Financial Performnace.

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

1.18 Comparative figures

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

1.19 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.

1.20 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.

1.21 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 economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Conditional grants and receipts

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

1.23 Unconditional grants and receipts

Receipts of unconditional grants, donations and funding are recognised as revenue on receipt.

1.24 Budget information

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

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

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

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

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

1.25 Related parties

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

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognized elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for.

Figures in South African Rand 2014 2013

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen not to early adopt any standards and interpretations:

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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 July 2015	The standard is not applicable to the municipality
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	Additional disclosure will be required
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Additional disclosure will be required
• GRAP 107: Mergers	01 April 2014	The standard is not applicable to the municipality
• GRAP 20: Related parties	01 April 2014	Additional disclosure will be required
• GRAP32: Service Concession Arrangements: Grantor	01 April 2015	Addional disclosure will be required
• GRAP108: Statutory Receivables	01 April 2015	Additional disclosurev will be required

2.3 Standards and interpretations not yet effective or relevant

There are no standards and interpretations that have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

3. Inventories

	2014	2013
Electrical spares	1 651	39 780
Game	54 000	-
Maintenance materials	101 152	108 310
Water	75 127	86 420
Stores, materials and fuels	573 553	759 662
Housing	24 758 669	29 852 598
	25 564 152	**30 846 770**

No inventories were written down to net realisable value.

Game is held for recreational purposes in a form of viewing of game at the reserves by the public. These animals are held for the enjoyment of the public and not for resale. It is not the intention of the municipality to trade in wildlife.

Figures in South African Rand	2014	2013

4. Receivables from non-exchange transactions

Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Staff taxes to SARS refundable	359 275	25 232
Recoverable fruitless and wasteful expenditure	119 058	119 058
Rates	20 865 093	17 680 158
Housing sundry	-	1 209
Environmental levies	2 831 276	2 485 837
Impairment for bad debts	(11 624 586)	(13 781 770)
	12 828 035	**6 807 661**

The depsits are made up of an amount of R58 000 paid to Eskom for street lighting and R12 500 paid to Kenton on Sea Guarage for a petrol deposit

Fruitless and wasteful expenditure comprises of an amount refundable from NG Ngesi, former Municipal Manager, for the acknowledgement of dept made by him for laptops paid for by the muniicpality but never delivered.

Receivables from non-exchange transactions past due but not impaired

Trade and other receivables which are past due but are not considered to be impaired as at 30 June 2014, R4 155 582 (2013: R 633 066) were past due but not impaired.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(13 781 788)	(12 640 197)
Provision for impairment - other non-exchange receivables	2 157 202	(1 141 591)
	(11 624 586)	**(13 781 788)**

None of the financial assets have been renegotiated in the past financial year.

5. Receivables from exchange transactions

Gross balances		
Electricity	10 697 915	9 784 677
Water	18 704 389	24 144 223
Waste water	965 120	747 513
Sewerage	8 462 333	7 994 574
Refuse	9 833 067	9 219 368
Housing rental	452 060	406 599
Service charges and other	12 441 496	16 957 125
	61 556 380	**69 254 079**
Less: Allowance for impairment		
Impairment allowance	(48 380 696)	(42 649 175)
Net balance		
Electricity	10 697 915	9 784 677
Water	18 704 389	24 144 223
Waste water	965 120	747 513
Sewerage	8 462 333	7 994 574
Refuse	9 833 067	9 219 368
Housing rental	452 060	406 599
Service charges and other	12 441 496	16 957 125
Impairment allowance	(48 380 696)	(42 649 175)
	13 175 684	**26 604 904**

Figures in South African Rand	2014	2013

5. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(42 649 175)	(44 639 345)
Contributions to allowance	(5 731 521)	1 990 170
	(48 380 696)	**(42 649 175)**

None of the financial assets have been renegotiated in the last year.

Consumer debtors past due but not impaired

Consumer debtors past due but are not considered to be impaired as at 30 June 2014, R20 963 926 (2013: R 29 192 501) were past due but not impaired.

Consumer debtors impairement process

In estimating the provision for debt impairment a means test was performed. The test entailed plotting each debtor's outstanding amount (including their payment history over the past financial year) and physical address on a GIS system. The following type of debtors were eliminated from the calculation:

- Indigents - these were impaired in full
- All government related debt - these should all be recoverable
- Debtors paying within 30 days - these were not considered to be doubtful
- Debtors settling their accounts monthly, although late - these were not considered to be doubtful
- Debtors with properties in affluent suburbs - these debtors are able to settle their accounts and were not considered to be doubtful

The outstanding amounts after the elimination of the above were considered to be impaired and were included in the provision for bad debt impairment.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 111	5 111
Bank balances	5 968 459	20 156 229
Short-term deposits	15 304 947	13 362 463
Bank overdraft	-	(5 552 609)
	21 278 517	**27 971 194**

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
FIRST NATIONAL BANK - General Account - Current	3 993 015	6 496 669	6 554 457	4 637 511	(5 552 609)	14 161 247
FIRST NATIONAL BANK - Housing Account - Current	1 152 054	5 153 010	681 816	1 152 188	5 152 010	681 816
FIRST NATIONAL BANK - Revolving Account - Current	178 760	15 003 219	17 678 986	178 760	15 003 219	17 678 986
Total	**5 323 829**	**26 652 898**	**24 915 259**	**5 968 459**	**14 602 620**	**32 522 049**

The municipality has a guarantee with FNB in favour of the Department of Mineral and Energy Affairs for an amount of R45 622.

The municipality has a guarantee with Eskom in favour of the Department of Minerals and Energy Affars for an amount of R1 024 929.

Figures in South African Rand	2014	2013

7. Other financial assets

	2014	2013
Designated at fair value		
Listed shares	134 689	107 494
Fair value of investments are as at face value and Old Mutual shares as at quoted market value at 30 June 2014.		
Total other financial assets	**134 689**	**107 494**
Non-current assets		
Designated at fair value	134 689	107 494

8. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	36 859 792	(300 542)	36 559 250	36 859 792	(300 542)	36 559 250

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	36 559 250	36 559 250

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	36 610 990	(51 740)	36 559 250

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.

Figures in South African Rand

9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	148 859 921	-	148 859 921	141 669 246	-	141 669 246
Buildings	101 403 505	(27 567 857)	73 835 648	104 968 459	(27 567 857)	77 400 602
Plant and machinery	8 141 112	(3 365 544)	4 775 568	4 456 467	(2 127 016)	2 329 451
Motor vehicles	25 288 939	(14 700 038)	10 588 901	24 818 693	(11 329 563)	13 489 130
Office equipment	5 682 469	(4 093 794)	1 588 675	5 454 923	(3 285 102)	2 169 821
Work in progress	57 250 866	-	57 250 866	114 112 561	-	114 112 561
Wastewater network	123 626 646	(35 751 283)	87 875 363	81 943 824	(33 304 745)	48 639 079
Water network	160 170 804	(96 435 599)	63 735 205	155 135 648	(85 172 845)	69 962 803
Roads	390 591 733	(229 120 278)	161 471 455	360 675 203	(218 368 246)	142 306 957
IT equipment	4 751 907	(2 581 907)	2 170 000	3 669 255	(2 012 173)	1 657 082
Electricity network	134 818 184	(64 663 236)	70 154 948	103 851 002	(61 604 682)	42 246 320
Total	**1 160 586 086**	**(478 279 536)**	**682 306 550**	**1 100 755 281**	**(444 772 229)**	**655 983 052**

Figures in South African Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	WIP Transfer out	WIP Transfers in	Depreciation	Total
Land	141 669 246	7 190 675	-	-	-	148 859 921
Buildings	77 400 602	5 801 639	179 896	(9 546 489)	-	73 835 648
Plant and machinery	2 329 451	3 684 645	-	-	(1 238 528)	4 775 568
Motor vehicles	13 489 130	470 246	-	-	(3 370 475)	10 588 901
Office equipment	2 169 821	227 545	-	-	(808 691)	1 588 675
IT equipment	1 657 082	1 082 653	-	-	(569 735)	2 170 000
Electricity network	42 246 320	4 476 591	30 183 098	(3 692 507)	(3 058 554)	70 154 948
Work in progress	114 112 561	51 171 859	(108 033 554)	-	-	57 250 866
Roads	142 306 957	20 397 795	21 736 279	(12 217 544)	(10 752 032)	161 471 455
Wastewater network	48 639 079	1 577 977	53 582 179	(13 477 334)	(2 446 538)	87 875 363
Water network	69 962 803	2 683 054	2 352 102	-	(11 262 754)	63 735 205
	655 983 052	**98 764 679**	**-**	**(38 933 874)**	**(33 507 307)**	**682 306 550**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	141 669 246	-	-	-	-	141 669 246
Buildings	81 927 191	63 950	-	(4 590 539)	-	77 400 602
Plant and machinery	1 967 522	935 104	(24 225)	(548 950)	-	2 329 451
Motor vehicles	10 292 814	6 201 769	(218 538)	(2 786 915)	-	13 489 130
Office equipment	2 620 567	309 785	-	(760 531)	-	2 169 821
IT equipment	1 674 386	498 063	-	(515 367)	-	1 657 082
Electricity network	46 429 927	1 332 120	(48 552)	(5 467 175)	-	42 246 320
Work in progress	58 265 755	55 846 806	-	-	-	114 112 561
Roads	154 836 312	-	-	(11 490 048)	(1 039 307)	142 306 957
Wastewater network	51 091 921	-	-	(2 444 672)	(8 170)	48 639 079
Water network	81 726 387	-	-	(11 757 053)	(6 531)	69 962 803
	632 502 028	**65 187 597**	**(291 315)**	**(40 361 250)**	**(1 054 008)**	**655 983 052**

Pledged as security

No assets have been 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. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	446 450	(218 779)	227 671	446 450	(111 559)	334 891

Reconciliation of intangible assets - 2014

Figures in South African Rand

10. Intangible assets (continued)

	Opening balance	Amortisation	Total
Computer software	334 891	(107 220)	227 671

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	94 451	317 621	(77 181)	334 891

Pledged as security

No intangible assets have been pledged as security.

11. Heritage assets

Reconciliation of heritage assets 2014

	Opening balance	Total
Historical buildings	-	-

Reconciliation of heritage assets 2013

	Opening balance	Total
Historical buildings	-	-

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain heritage asset with a carrying value of R - (2013: R -) was recognised at provisional amounts.

12. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	134 689	-	134 689
Trade and other receivables from exchange transactions	-	13 175 684	13 175 684
Other receivables from non-exchange transactions	-	12 828 035	12 828 035
Cash and cash equivalents	21 278 517	-	21 278 517
	21 413 206	**26 003 719**	**47 416 925**

Financial liabilities

	At amortised cost	Total

Figures in South African Rand

. Financial instruments disclosure (continued)

Financial liabilities-DBSA	23 673 293	23 673 293
Trade and other payables	29 609 923	29 609 923
	53 283 216	**53 283 216**

2013

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	107 494	-	107 494
Trade and other receivables from exchange transactions	-	32 568 199	32 568 199
Other receivables from non-exchange transactions	-	8 546 278	8 546 278
Cash and cash equivalents	27 971 194	-	27 971 194
	28 078 688	**41 114 477**	**69 193 165**

Financial liabilities

	At amortised cost	Total
Financial liabilities - DBSA	27 044 269	27 044 269
Payables	5 147 269	5 147 269
	32 191 538	**32 191 538**

13. Consumer deposits

Electricity	1 445 159	1 471 302
Water	189 774	164 605
	1 634 933	**1 635 907**

14. Payables

Trade payables	15 316 193	5 147 269
Payments received in advance	2 728 981	2 288 681
Accrued leave pay	4 255 431	3 574 337
13th cheque accrual	2 050 152	1 879 375
Accrued expense	2 565 509	10 412 155
Deposits received	799 001	805 296
Other payables	74 259	144 972
Unidentified direct deposits	2 285 786	2 266 692
Retention monies	2 078 347	1 528 457
	32 153 659	**28 047 234**

Notes to the Financial Statements

Figures in South African Rand	2014	2013

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
DWAF	1 483 679	(74)
Cacadu grants	153 177	417 558
MIG	4 177 006	133 329
MSIG	(92 399)	74 714
LED	1 988 620	2 713 487
ECDC	-	72
EC Sports/Arts and culture	2 065 259	2 059 478
LG SETA	328 409	394 796
DLGTA	-	(1)
DME	38 506	282 802
Public Works - EPWP	7 139	(10 471)
FMG	(76 328)	158 319
LED Assistant	30 377	87 990
Flood damage grant	(54 706)	3 604 387
Housing fund DHLG	26 429 223	35 403 149
Councilor's Contribution	(545 243)	-
	35 932 719	**45 319 535**

The liability relates to unfulfilled conditions and other contingencies attached to government assistance that has been recognised. Expenditure on grants was made in terms of the relevant conditions and no grant funding was witheld during the year

See note 23 for reconciliation of grants from National/Provincial Government.

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

16. VAT payable

VAT refunds payable	2 795 707	3 936 679

17. Financial liabilities - DBSA

At amortised cost		
DBSA Loan 102198 10 years @ 10.89%	3 193 347	4 432 563
DBSA Loan 101161/2 20 years @12.34%	6 309 339	6 373 956
DBSA Loan 13478/101 20 years @17%	3 492 670	4 206 015
DBSA Loan 101855 10 years @ 9.68%	2 526 061	3 535 293
DBSA Loan 102557/1 15 years @ 8.81%	8 151 876	8 496 442
	23 673 293	**27 044 269**
Total other financial liabilities	**23 673 293**	**27 044 269**
Non-current liabilities		
At amortised cost	19 777 482	23 673 153
Current liabilities		
At amortised cost	3 895 811	3 371 116

Figures in South African Rand	2014	2013

18. Employee benefit obligations

Defined benefit plan

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement medical aid plan

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

Carrying value		
Balance at the beginning of the year	(50 794 000)	(49 642 001)
Actuarial (loss)/ gain	928 000	2 664 206
Current service costs	(3 214 000)	(2 407 659)
Interest, service cost and benefits paid	(4 078 000)	(2 769 546)
Benefits paid	1 574 000	1 361 000
	(55 584 000)	**(50 794 000)**
Non-current liabilities	(53 915 000)	(49 315 000)
Current liabilities	(1 669 000)	(1 479 000)
	(55 584 000)	**(50 794 000)**

Net expense recognised in the statement of financial performance

Current service cost	3 214 000	2 407 659
Interest cost	4 078 000	2 769 546
Actuarial (gains) losses	(928 000)	(2 664 206)
Benefits paid	(1 574 000)	(1 361 000)
	4 790 000	**1 151 999**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,94 %	7,89 %
Expected rate of return on assets	7,05 %	6,14 %
Expected rate of return on reimbursement rights	8,05 %	7,14 %
Actual return on reimbursement rights	0,82 %	0,70 %

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**
Total accued liability	55 584 000	43 581 000
Interest cost	4 078 000	3 485 000
Service cost	3 214 000	2 598 000

Figures in South African Rand

Notes to the Financial Statements

19. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Current service costs	Interest costs	Benefits paid	Actaurial gain	Total
Environmental rehabilitation	6 761 622	-	-	-	-	-	6 761 622
Long service awards	6 575 509	480 780	213 974	535 178	(619 000)	1 116 766	8 303 207
	13 337 131	**480 780**	**213 974**	**535 178**	**(619 000)**	**1 116 766**	**15 064 829**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Current service costs	Interest costs	Benefits paid	Actaurial gain	Total
Environmental rehabilitation	5 893 204	868 418	-	-	-	-	6 761 622
Long service awards	3 825 592	2 319 427	483 588	193 644	(589 073)	342 331	6 575 509
	9 718 796	**3 187 845**	**483 588**	**193 644**	**(589 073)**	**342 331**	**13 337 131**

Non-current liabilities	14 303 829	12 190 193
Current liabilities	761 000	1 146 938
	15 064 829	**13 337 131**

Environmental rehabilitation provision

Ndlambe Municipality operates 10 landfill sits which by law will have to be permitted and closed in accordance with the “Minimum Requirements” and in accordance with the Environment Conservation Act. (Act 73 of 1989). Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Closure of the landfill sites are dependant on a number of external factors, such as amongst others, waste minimisation and population changes.

Figures in South African Rand	2014	2013

19. Provisions (continued)

Long service awards

Ndlambe offers long service bonus awards to active employees, the amount of which is dependent on the annual salary of the employee. Councillors are not eligible for this benefit and were not taken into account. The award comprises of percentage of their annual salary as well as additional leave days to employees at the end of the specified time period.

20. Revenue

Burial services	192 000	170 376
Service charges	80 701 551	84 222 407
Rental of facilities and equipment	1 068 217	3 437 496
Licences and permits	3 498 356	3 189 776
Rental income	6 044	4 151
Other income	2 411 938	4 777 916
Interest received - investment	6 451 856	5 804 527
Property rates	57 879 560	50 403 796
Government grants & subsidies	117 351 500	125 122 085
Fines	432 880	510 927
	269 993 902	**277 643 457**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	80 701 551	84 222 407
Burial services	192 000	170 376
Rental of facilities and equipment	1 068 217	3 437 496
Licences and permits	3 498 356	3 189 776
Rental income	6 044	4 151
Other income	2 411 938	4 777 916
Interest received - investment	6 451 856	5 804 527
	94 329 962	**101 606 649**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	57 879 560	50 403 796
Transfer revenue		
Government grants & subsidies	117 351 500	125 122 085
Fines	432 880	510 927
	175 663 940	**176 036 808**

21. Property rates

Rates received

Property rates	57 879 560	50 403 796

Valuations

All	11 923 847 933	12 433 252 452

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis.

Figures in South African Rand	2014	2013

22. Service charges

Sale of electricity	45 031 222	41 983 081
Sale of water	18 427 720	25 536 234
Sewerage and sanitation charges	5 889 748	5 466 758
Refuse removal	10 877 341	10 672 770
Other service charges	475 520	563 564
	80 701 551	**84 222 407**

23. Government grants and subsidies

Equitable share	56 050 392	49 273 555
Health subsidies	1 321 066	1 289 512
Government grant (PPE)	51 403 179	65 335 438
Government grant (operating)	8 576 863	9 223 580
	117 351 500	**125 122 085**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In the current financial year, an amount of R4,6 million was withheld from Equitable Share, due to DORA grants unspent as at 30 June 2013, contrary to the agreement that the total DORA grant needed to have been spent as at year end.

Reconciliation: Unspent conditional grants (all grants)

Balance unspent at beginning of year	12 418 861	14 894 082
Current year receipts	-	73 373 309
Conditions met - transferred to revenue	-	(75 848 530)
	12 418 861	**12 418 861**

Conditions still to be met - remain liabilities (see note 15)

Health subsidies received were spent on environmental health matters for example health inspections for business properties, hospitals, etc. to ensure their relevant health and safety requirements are met.

Government grants relating to PPE were utilised to repair flood damage, construction of sewer ponds, electricity substations and laying of block paving.

Government grants (operating) were utilised to fund salaries and provide training of financial interns as well as MFMA competency training of senior management (FMG grant). The MSIG grant was utilised to fund the GRAP compliant asset register compilation. Councillor allowances and salaries of ward committee members are funded through the Equitable share: Councillor allowances grant.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (2013/2014), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Financial Statements

Figures in South African Rand	2014	2013

24. Other income

Admission fees	38 247	46 487
Alexandria sundry	-	29 274
Building plan fees	842 905	794 354
Encroachments	2 490	2 612
Event application fees	8 143	9 493
Sundry fees	13 279	43 561
Insurance claim refund	435 972	2 654 313
Refuse bags sold	16 139	20 163
River usage	129 080	128 382
Sundry income	302 913	400 921
Subdivisions	41 717	19 313
Town planning income	336 038	127 098
Valuation rolls	74 147	77 265
Camping fees	170 868	81 640
Donations (flood)	-	343 040
	2 411 938	**4 777 916**

Figures in South African Rand	2014	2013

25. Employee related costs

Basic	54 955 457	49 317 784
Bonus	170 777	164 312
Medical aid - company contributions	5 832 513	5 117 568
UIF	554 397	526 299
WCA	381 422	381 422
SDL	689 769	634 865
Leave pay provision charge	681 094	410 324
Post-employment benefits	16 300 023	10 042 350
Overtime payments	6 037 876	7 115 164
Long-service awards	-	430 490
Car allowance	2 541 635	2 402 995
Housing benefits and allowances	360 639	309 628
Group insurance	443 616	458 150
Allowances	2 490 703	2 264 138
Industrial levy	34 086	31 577
Casuals	2 259 586	1 331 248
	93 733 593	**80 938 314**

Remuneration of municipal manager

Annual Remuneration	853 711	724 337
Car Allowance	175 980	175 986
Performance Bonuses	37 439	-
Telephone allowance	15 540	15 535
Other (Allowance, UIF, Medical, Pension, etc)	189 205	6 221
13th Cheque	65 332	50 602
Leave pay	54 605	74 025
	1 391 812	**1 046 706**

Remuneration of chief finance officer

Annual Remuneration	632 351	534 513
Car Allowance	180 861	180 861
Performance Bonuses	10 396	-
Telephone allowance	21 304	21 304
Other (Allowance, UIF, Medical, Pension, etc)	181 842	14 687
13th Cheque	49 091	34 271
Leave pay	72 266	46 251
	1 148 111	**831 887**

Remuneration of the director: infrastructural development

Annual Remuneration	546 673	497 290
Car Allowance	231 000	204 000
Performance Bonuses	31 115	-
Telephone allowance	30 000	24 000
Other (Allowance, UIF, Medical, Pension, etc)	211 129	36 000
13th Cheque	62 187	38 021
Leave pay	20 754	85 932
	1 132 858	**885 243**

Remuneration of the director: corporate services

Annual Remuneration	655 172	430 505
Car Allowance	144 000	144 000

Figures in South African Rand	2014	2013

25. Employee related costs (continued)

Performance Bonuses	18 754	-
Telephone allowance	12 000	12 000
Other (Allowance, UIF, Medical, Pension, etc)	176 568	24 000
13th Cheque	47 107	16 662
Leave pay	58 240	31 951
	1 111 841	**659 118**

Remuneration of the director: community and protection services

Annual Remuneration	604 380	390 743
Car Allowance	180 000	180 000
Performance Bonuses	37 448	-
Telephone allowance	22 000	24 000
Other (Allowance, UIF, Medical, Pension, etc)	163 423	24 000
13th Cheque	70 170	30 243
Leave pay	46 341	35 297
	1 123 762	**684 283**

26. Remuneration of councillors

Councillors (refer to table below)	5 173 279	4 973 700

Councillors

S R Tandani (Mayor)	719 562	685 318
N V Maphaphu (Speaker)	317 012	296 412
S B Funde	291 845	278 133
M Mateti	291 845	278 131
R K Purdon	268 199	278 660
G G Cannon	216 339	206 043
T L E Khoathani	215 801	205 659
Z Ngxingo	215 801	205 464
K C Ncamiso	276 855	274 664
N T Donile	216 339	206 043
J P Guest	216 339	205 934
T Mazana	216 339	206 043
L R Schenk	216 339	206 043
T Stander	198 308	206 043
M J Tarentaal	216 339	205 785
S Venene	215 955	205 743
N Xhasa	216 339	206 043
C Meterlekamp	216 339	206 043
P P Faxi	216 339	206 043
M E Msimang	215 048	205 453
	5 173 282	**4 973 700**

In-kind benefits

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

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

27. Debt impairment

Contribution to debt impairment provision	15 553 627	13 487 448

Notes to the Financial Statements

Figures in South African Rand	2014	2013

28. Investment revenue

Interest revenue		
Bank	1 488 259	1 202 751
Interest charged on trade and other receivables	4 963 597	4 601 776
	6 451 856	**5 804 527**

29. Fair value adjustments

Other financial assets		
• Old Mutual shares	382 778	25 594

30. Finance costs

Non-current borrowings	2 965 770	3 028 357
Current bank account interest expense	451 229	232 599
	3 416 999	**3 260 956**

31. Auditors' remuneration

Fees	4 076 407	2 616 138

32. Grants and subsidies paid

Other subsidies		
Grants and subsidies paid	885 103	871 241
Operating expenditure ex Grant Funding	7 792 013	6 965 071
	8 677 116	**7 836 312**

33. Bulk purchases

Electricity	31 925 730	28 454 698
Water	9 154 330	7 275 928
	41 080 060	**35 730 626**

Notes to the Financial Statements

Figures in South African Rand	2014	2013

34. General expenses

Advertising	192 808	236 014
Auditors remuneration	4 076 407	2 616 138
Bank charges	610 552	562 320
Commission paid	337 928	328 659
Consulting and professional fees	14 377 966	15 108 366
Communication programmes	25 530	1 630
Boat decals	46 251	38 945
Entertainment	98 980	79 459
Flowers	700	200
Enviromental levy expense	351 729	56 750
Hiring expenses	526 878	665 851
Insurance	1 917 384	1 808 865
Administration	113 006	64 869
Election expenses	72 171	-
IT support	36 073	38 227
Lease rentals on operating lease	2 293 818	1 850 381
Motor vehicle licensing	244 958	242 554
Stock/Fuel loss	408 422	(131 319)
Job creation	569 603	1 561 916
Fuel and oil	4 682 650	4 193 912
Postage and courier	527 299	825 797
Printing and stationery	891 806	636 747
Campaigns	52 009	38 676
Security (Guarding of municipal property)	991 874	918 736
Staff welfare	32 187	9 230
Subscriptions and membership fees	87 260	1 492 506
Telephone and fax	1 674 313	1 437 929
Transport and freight	1 793	1 208
Training	378 233	289 485
Travel - local	1 986 972	1 782 559
Refuse	398 472	1 147 096
Electricity	7 889 518	6 240 490
Sewerage and waste disposal	139 730	149 961
Uniforms	763 043	448 955
Tourism development	371 494	97 244
Water testing	192 908	45 823
Bursaries	83 036	67 616
Water services authority expenditure	481 501	432 456
Publicity	3 160	14 560
Valuation expenses	1 257 085	56 754
Transport (workshop)	88 610	74 760
Chemicals	1 017 253	949 545
PMS review process	45 023	24 545
Clearing of erven	32 488	59 530
Other expenses	1 567 669	680 071
	51 938 550	**47 246 016**

Notes to the Financial Statements

Figures in South African Rand	2014	2013

35. Cash generated from operations

Surplus	10 105 219	31 123 600
Adjustments for:		
Depreciation and amortisation	33 614 527	40 490 171
Loss (gain) on sale of assets and liabilities	67 235	117 178
Fair value adjustments	(382 778)	(25 594)
Impairment deficit	-	1 054 007
Debt impairment	15 553 627	13 487 448
Movements in operating lease assets and accruals	-	523
Movements in retirement benefit assets and liabilities	4 790 000	1 151 999
Movement in provisions	1 727 698	1 298 908
Prior year adjustments	-	8 975 523
Changes in working capital:		
Inventories	5 282 618	(716 251)
Receivables from non-exchange transactions	(17 644 960)	(659 561)
Decrease/(increase) in receivables from exchange transactions	9 500 179	(31 338 325)
Payables	4 106 425	(10 652 508)
(Decrease)/increase in VAT	(1 140 972)	2 222 566
Unspent conditional grants and receipts	(9 386 816)	1 967 255
Consumer deposits	(974)	(30 668)
	56 191 028	**58 466 271**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	-	392 163

This committed expenditure relates to infrastructure development and will be financed from grant funding.

37. Contingencies

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2014 is R143 911 (2013: R1 830 000). ;

38. Going concern

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

39. Events after the reporting date

40. Unauthorised expenditure

Unauthorised expenditure	62 349 988	62 531 566

The above amount represents expenditure incurred due to either no budget or overspending on budget.

41. Irregular expenditure

Opening balance	16 200 712	16 200 712
Add: Irregular Expenditure - current year (Supply Chain Management regulations not adhered to)	2 544 867	-
	18 745 579	**16 200 712**

Figures in South African Rand	2014	2013

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	724 454	-
Current year subscription / fee	1 876 487	1 125 699
Amount paid - current year	-	(401 245)
	2 600 941	**724 454**

Non-compliance with MFMA

During the year the following instance of non-compliance with the MFMA occurred:

- Grant spending without budgeted for; and
- Suppliers not paid within 30 days.

Audit fees

Expense - current year	4 076 407	2 616 138

PAYE and UIF

Amount paid - current year	(9 118 864)	(7 964 043)

Pension and Medical Aid Deductions

Amount paid - current year	23 012 703	19 872 152

VAT

VAT payable	2 795 707	3 936 679

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 R	Outstanding more than 90 days R	Total R
S Venene	538	3 183	3 721
C I Cannon	1 555	4 043	5 598
P Faxi	296	160	456
E Khoathani	964	5 444	6 408
M Msimang	361	2 218	2 579
T Stander	2 907	-	2 907
	6 621	**15 048**	**21 669**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Sundries	31 145 337	46 124 269

Figures in South African Rand	2014	2013

43. Related parties

Related party balances

Receivables		
Department of Roads & Public Works	1 002 686	159 998
Department of Health	113 393	3 952
Department of Agriculture	6 113	7 228
Department of Education	259 029	165 897

Related party transactions

Revenue		
Department of Health	534 337	399 060
Department of Roads & Public Works	1 476 465	1 169 596
National Department of Public Works	1 059 039	998 106
Department of Education	332 546	303 107
Department of Agriculture	95 455	89 390

44. Prior period errors

This was due to a VAT audit conducted by Maxprof and the bulk of the adjustment is in respect of indigent subsidies incorrectly accounted for.

Re-allocation was made on prepaid expenses and debtors paid in advance was never reversed in the following year.

Old grants with balances on the ledger from previous years that are not cash backed were taken to appropriation as legislation requires all grants to be cash backed.

Old Grants with debit balances were written off. Accrued expenses dating bach were never reverse in the following year are now corrected.

Accrued expenses dating bach were never reverse in the following year are now corrected.

This was due to a VAT audit conducted by Maxprof and the bulk of the adjustment is in respect of indigent subsidies incorrectly accounted for.Re-allocation was made on prepaid expenses and debtors paid in advance was never reversed in the following year.Old grants with balances on the ledger from previous years that are not cash backed were taken to appropriation as legislation requires all grants to be cash backed.Old Grants with debit balances were written off. Accrued expenses dating bach were never reverse in the following year are now corrected.Raising journal for expenditure relating to invoices for 2012/13 financial year not raised as accruals in 2013 but paid in 2014.Reversal of debtors revenue written off for 2013 financial year

Raising journal for expenditure relating to invoices for 2012/13 financial year not raised as accruals in 2013 but paid in 2014

Reversal of debtors revenue written off for 2013 financial year.

Housing inventory was not accounted for in the priovious financial year and now adjusted.

Court ruling in favour of SALA pension fund where the municiapality is to make up increase council contributions from July 2003.

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

Statement of financial position		
Receivable from non-exchange transactions	-	-
Balance previously reported	-	8 546 278
Billing adjustments	-	(1 738 617)
Restated balance	-	6 807 661

Figures in South African Rand	2014	2013

44. Prior period errors (continued)

Payables		
Balance previously reported	-	(31 341 448)
Adjustment - Trade creditors	-	(1 159 416)
Adjustment - Accrued expense	-	4 490 501
Restated balance	-	(28 010 363)

Unspent conditional grants		
Balance previously reported	-	(17 543 153)
Adjustment	-	2 076 214
Restated balance	-	(15 466 939)

Receivables from exchange transactions		
Balance previously reported	-	32 568 199
Adjustments	-	(5 963 290)
Restated balance	-	26 604 909

Statement of Financial Performance

Property rates		
Balance previously reported	-	(51 000 822)
Adjustments	-	597 026
Restated balance	-	(50 403 796)

General expenses		
Balance previously reported	-	46 481 157
Adjustment - accruals not raised	-	736 130
Reclasification of items to other income	-	57 575
Reclassification of items to expense	-	(65 510)
Adjustment of smooting operating lease	-	36 664
Restated balance	-	47 246 016

Government grants and subsidies		
Balance previously reported	-	(121 682 530)
Adjustment	-	(3 439 555)
Restated balance	-	(125 122 085)

Finance costs		
Balance previously reported	-	3 028 357
Adjustment	-	(42 519)
Restated balance	-	2 985 838

Service charges		
Balance previously reported	-	(94 843 282)
Adjustment	-	10 620 870
Restated balance	-	(84 222 412)

Notes to the Financial Statements

Figures in South African Rand	2014	2013

44. Prior period errors (continued)

Rental of facilities and equipment		
Balance previously reported	-	(3 489 913)
Adjustment	-	52 417
Restated balance	-	(3 437 496)
Other Income		
Balance previously reported	-	(4 720 341)
Reclasification of items from general expenses	-	356 910
Restated Balance	-	(4 363 431)
Repairs and maintenance		
Balance previously reported	-	11 345 213
Reclacification of item from general expenses	-	65 510
Restated balance	-	11 410 723
Inventory		
Balance previously reported	-	994 172
Adjusted	-	29 852 598
Restated balance	-	30 846 770
Provision		
Balance previously reported	-	(11 017 704)
Adjustment	-	(2 319 427)
Restated balance	-	(13 337 131)
Accumulated surplus		
Balance previously reported	-	616 199 576
Adjustment	-	40 801 819
Restated balance	-	657 001 395
Property, plant and equipment		
Balance previously reported	-	652 411 208
Adjustment	-	3 571 844
Restated balance	-	655 983 052

45. Fruitless and wasteful expenditure

46. Budget differences

Material differences between budget and actual amounts

Revenue:

Service charges: Variance is due to indigent subsidy which was off-set against service charges in the actual amounts and budgeted for separately.

Rendering of services: Variance is due to the burial fees been moved from service charges to rendering of services

Figures in South African Rand	2014	2013

46. Budget differences (continued)

Licences and permits: The budget for motor vehicle licences was under budgeted as not as much income was expected with the Alexandria been out of operation.

Rental income - The budget is included on the rental of facilities and equipment budget.

Interest received - investment: Interest on the R15 million for flood relief money received during the year were not budgeted for.

Property rates: Income foregone erroneously taken into account twice in the budgeted figures.

Government grants and subsidies:R15 million for floods and R1 million water assessment audit where received after the adjustment budget was approved.

Fines: Budget amounts are subjective and cannot be accurately predicted.

Expenses:

Personnel: Payments as a results of regrading, establishment of the PMU office and the filling of vacant post in the technical department.

Remuneration of councillors: Variance is not material.

Depreciation and amortisation: The depreciation budgte gets cutted yearlly to keep the budget increase within inflation rates and acceptable to the rates payers

Finance cost: The finance costs budgtet gets cutted yearlly to keep the budget increase within inflation rates and acceptable to the rates payers

Debt impairment: The fdebt impairement budgtet gets cutted yearlly to keep the budget increase within inflation rates and acceptable to the rates payers

Repairs and maintenance: Due to cash flow departments were stopped to carry out maintanance they have planned for.

Loss/disposal of assests: No assets were sold during the financial year as anticipated.

Grants and subsidies paid: The budget for grants and subsidies paid is included under general expenditure, due to the layout of the National Treasury's budget template.

General expenses: The equitable share was incorrectely budgeted for due to the Auditor General wanting the accounting for equitable share for indigents to be reclassified.

47. 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.

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

Figures in South African Rand	2014	2013

47. Risk management (continued)

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

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2014 and 2013, the municipality's borrowings at variable rate were denominated in the Rand.

The municipality analyses its interest rate exposure by taking into consideration refinancing, renewal of existing positions, alternative financing, etc.

At year end, the maturity analysis of non-derivative financial liabilities which are exposed to interest rate risk are as follows:

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other payables	- %	-	-	-	-	-

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

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

The municipality holds deposits of R1 634 933 (2013: R1 635 907) from consumer debtors. No guarantees or collateral was provided to third parties.

48. Water and electricity losses

	2014	2013
Losses		
Water	9 398 604	10 192 329
Electricity	4 824 269	3 877 107
	14 222 873	**14 069 436**

In 2014 water losses were as the result of the 42.9kl per hour from the supply dam to the treatment works which is at 12.4 % loss on bulk suppy. Futher losses were accounted to the following: no billing history, vacant stands, zero consumptions, no meter readings, duplicate Erf numbers and existing billing history. In 2013, the water reticulation losses were 27.62% (4 744 008kl produced and 3 433 940kl sold). These losses are predominantly due to riding water to areas that could not be provided with water, burst pipes and metering inefficiencies.

In the current year, the energy losses were 15.57% (2013: 13.66%). Energy purchased was 44 277 593 kWh and 37 385 780 kWh sold (2013: 44 107 242 kWh purchased and 38 082 493 kWh sold). In 2013 these losses are the result of 320 prepaid electricity meters being disfunctional, 180 meters being tampered with, street lights that are not metered, obsolete aluminium lines, old high and low voltage cables and dirty oil in transformers and switchgear.