Letsemeng Local Municipality
Financial statements
for the year ended 30 June 2015

General Information

Mayoral committee	
Mayor	Cllr. T.I. Reachable
Councillors	Cllr. M.A. Mpatshehla
	Cllr. M.M. Tsiloana
	Cllr. M.U. Jantjies
	Cllr. P.M. Dibe
	Cllr. S Lecoko (1 July – December 2014)
	Cllr. P.S. Musa (Appointed March 2015)
	Cllr. V.A. Mona
	Cllr. P Louw
	Cllr. L Greef
	Cllr. V Coetzee
	Cllr. K. Nel
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Ms. J. Mazinyo (Acting)
Accounting Officer	Mr. B.A. Mnguni
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA
Auditors	Auditor - General of South Africa

Index

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

Abbreviations

SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipal operations depend on a number of sources of revenue ranging from National Government to its own sources and donations for continued funding of operations. As such, the annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The financial statements set out on pages 6 to 79, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

Mr. B.A. Mnguni
Accounting officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

Shared Audit and Performance Committee members and attendance

The shared audit and performance committee (Xhariep District) consists of four members listed hereunder and meet on a regular basis per annum as per its approved terms of reference. During the current year three meetings were held.

Name of member	Number of meetings attended
Mr. M.M. Segalo (Chairman)	3
Mr. V. Vapi	3
Ms. S. Makhathini	3
Ms. R.T. Mocwaledi (appointed 01/04/2015)	1

Audit committee responsibility

The shared audit committee reports that it has complied with its responsibilities arising from section 38(10)(1) of the PFMA and Treasury Regulation 3.1.

The shared audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements (as applicable in municipal environment and adopted by Council), Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, material deficiencies in the system of internal controls or any deviations therefrom are disclosed in their audit report (Other Matters).

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the under review.

Evaluation of financial statements

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Audit Committee Report

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.The external audit used internal audit reports for risk identification purposes but did not place reliance on the internal audit reports.

Chairperson of the Audit Committee

Date:

Accounting Officer's Report

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

1. Review of activities

Main business and operations

Letsemeng Local Municipality (the municipality) is a local government institution in Koffiefontein, Free State Province. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

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

Net deficit of the municipality was R 11 247 423 (2014: surplus R 1 855 512).

2. Going concern

Management experienced cash flow difficulties during the financial period.

Management considered the following matters relating to the Going Concern:

(i) The municipality’s Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors’ collection rates and creditors’ payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The Accounting Officer declared his interest in terms of Supply Chain Management Regulations.

5. Accounting policies

The financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

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

Name	Nationality	Changes
Mr. B.A. Mnguni	South African	Appointed 01 August 2014

Accounting Officer's Report

7. Corporate governance

General

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

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report III. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a regular basis.

Management meetings

The accounting officer meets section 56 managers at least on a monthly basis.

Internal audit

The municipality has outsourced its internal audit function to Thebeyaka consulting. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality's bankers did not change during the year.

9. Auditors

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

10. Non compliance with applicable legislation

Significant non-compliance with various legislations have been properly disclosed in the notes to the financial statements.

Statement of Financial Position as at 30 June 2015

Figures in Rand	Notes	2015	2014 Restated*
Assets			
Current Assets			
Inventories	10	7 118 575	955 720
Receivables from exchange transactions	11&14	14 282 454	9 358 404
Receivables from non-exchange transactions	12&14	5 628 679	3 209 782
VAT receivable	13	7 880 408	2 329 121
Payments in advance	9	-	511 879
Cash and cash equivalents	15	3 194 564	15 032 834
		38 104 680	**31 397 740**
Non-Current Assets			
Property, plant and equipment	4	587 062 860	600 078 299
Intangible assets	5	305 840	450 787
Heritage assets	6	3 929 468	3 929 468
Investments	7	10 306 092	18 409 289
		601 604 260	**622 867 843**
Total Assets		**639 708 940**	**654 265 583**
Liabilities			
Current Liabilities			
Finance lease obligation	17	128 974	29 529
Payables from exchange transactions	20	9 483 238	10 107 197
Consumer deposits	21	721 782	693 347
Employee benefit obligation	8	524 203	535 375
Unspent conditional grants and receipts	18	12 890 949	13 713 326
		23 749 146	**25 078 774**
Non-Current Liabilities			
Finance lease obligation	17	214 628	12 564
Employee benefit obligation	8	5 423 564	5 416 151
Provisions	19	5 109 213	7 298 282
		10 747 405	**12 726 997**
Total Liabilities		**34 496 551**	**37 805 771**
Net Assets		**605 212 389**	**616 459 812**
Accumulated surplus	16	605 212 389	616 459 812

* See Note 2 & 48

Statement of Financial Performance

Figures in Rand	Notes	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Administration and management fees received		-	253 242
Dividends received	27	4 515	3 059
Fees earned		-	88 852
Interest received (trading)		4 743 169	2 637 190
Interest received - investment	27	1 849 970	1 106 751
Licences and permits		-	923
Other income	26	2 554 325	-
Recoveries	25	3 517 136	-
Rental of facilities and equipment	24	245 348	344 867
Service charges	23	31 316 127	27 071 657
Sundry income		-	97 205
Sundry municipal service income		-	287 620
Total revenue from exchange transactions		**44 230 590**	**31 891 366**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	28	14 563 811	9 311 908
Transfer revenue			
Government grants & subsidies	29	71 374 377	78 310 498
Fines, Penalties and Forfeits		4 500	48 520
Total revenue from non-exchange transactions		**85 942 688**	**87 670 926**
Total revenue	22	**130 173 278**	**119 562 292**
Expenditure			
Employee related costs	30	(38 844 543)	(28 940 429)
Remuneration of councillors	31	(3 143 467)	(3 075 184)
Administration	32	(174 019)	(14 331)
Depreciation and amortisation	33	(28 593 065)	(27 731 742)
Impairment loss/ Reversal of impairments	34	(680 523)	-
Finance costs	35	(992 213)	(599 320)
Bulk purchases	37	(22 604 782)	(22 791 967)
Repairs and maintenance		(3 711 456)	(2 754 713)
Debt Impairment	36	(13 941 921)	(4 896 700)
General Expenses	38	(28 948 940)	(26 414 371)
Total expenditure		**(141 634 929)**	**(117 218 757)**
Operating (deficit) surplus		**(11 461 651)**	**2 343 535**
Fair value adjustments	39	13 805	14 475
Actuarial gains/losses	8	200 423	(502 496)
		214 228	**(488 021)**
(Deficit) surplus for the year		**(11 247 423)**	**1 855 514**

* See Note 2 & 48

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	616 468 341	616 468 341
Adjustments		
Change in accounting policy	3 929 468	3 929 468
Balance at 01 July 2013 as restated*	**620 397 809**	**620 397 809**
Changes in net assets		
Prior year adjustments	(5 793 509)	(5 793 509)
Net income (losses) recognised directly in net assets	(5 793 509)	(5 793 509)
Surplus for the year	1 855 512	1 855 512
Total recognised income and expenses for the year	(3 937 997)	(3 937 997)
Total changes	(3 937 997)	(3 937 997)
Restated* Balance at 01 July 2014	**616 459 812**	**616 459 812**
Changes in net assets		
Surplus for the year	(11 247 423)	(11 247 423)
Total changes	(11 247 423)	(11 247 423)
Balance at 30 June 2015	**605 212 389**	**605 212 389**

* See Note 2 & 48

Cash Flow Statement

Figures in Rand	Notes	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Property rates		12 144 915	6 724 550
Sale of goods and services		7 410 747	19 408 032
Grants		70 552 000	90 145 100
Interest income		1 849 970	1 106 751
Dividends received		4 515	3 059
Other receipts		4 160 675	1 535 591
Interest income - trading		4 743 169	2 637 190
		100 865 991	121 560 273
Payments			
Employee costs		(41 791 346)	(32 047 770)
Suppliers		(62 226 010)	(52 414 546)
Finance costs		(855 165)	(599 320)
		(104 872 521)	(85 061 636)
Net cash flows from operating activities	41	**(4 006 530)**	**36 498 637**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(15 843 644)	(22 488 472)
Purchase of other intangible assets	5	(11 614)	(114 947)
Movement in financial assets		8 117 001	(698 773)
Other cash item		5 786	-
Net cash flows from investing activities		**(7 732 471)**	**(23 302 192)**
Cash flows from financing activities			
Finance lease payments		(99 269)	(137 814)
Net increase/(decrease) in cash and cash equivalents		**(11 838 270)**	**13 058 631**
Cash and cash equivalents at the beginning of the year		15 032 834	1 974 203
Cash and cash equivalents at the end of the year	15	**3 194 564**	**15 032 834**

* See Note 2 & 48

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	46 420 000	-	**46 420 000**	31 316 127	**(15 103 873)**	
Rental of facilities and equipment	432 000	-	**432 000**	245 348	**(186 652)**	
Interest received (trading)	-	-	**-**	4 743 169	**4 743 169**	
Licences and permits	6 000	-	**6 000**	-	**(6 000)**	
Recoveries	-	-	**-**	3 517 136	**3 517 136**	
Sundry income	959 000	-	**959 000**	-	**(959 000)**	
Other income - (rollup)	-	-	**-**	2 554 325	**2 554 325**	
Interest received - investment	3 500 000	-	**3 500 000**	1 849 970	**(1 650 030)**	
Dividends received	27 000	-	**27 000**	4 515	**(22 485)**	
Total revenue from exchange transactions	**51 344 000**	**-**	**51 344 000**	**44 230 590**	**(7 113 410)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7 157 000	-	**7 157 000**	14 563 811	**7 406 811**	
Transfer revenue						
Government grants & subsidies	53 929 000	-	**53 929 000**	71 374 377	**17 445 377**	
Fines, Penalties and Forfeits	95 000	-	**95 000**	4 500	**(90 500)**	
Total revenue from non-exchange transactions	**61 181 000**	**-**	**61 181 000**	**85 942 688**	**24 761 688**	
Total revenue	**112 525 000**	**-**	**112 525 000**	**130 173 278**	**17 648 278**	
Expenditure						
Personnel	(37 975 000)	1 497 000	**(36 478 000)**	(38 844 543)	**(2 366 543)**	
Remuneration of councillors	(3 700 000)	181 000	**(3 519 000)**	(3 143 467)	**375 533**	
Administration	-	-	**-**	(174 019)	**(174 019)**	
Depreciation and amortisation	(11 700 000)	(7 466 000)	**(19 166 000)**	(28 593 065)	**(9 427 065)**	
Impairment loss/ Reversal of impairments	-	-	**-**	(680 523)	**(680 523)**	
Finance costs	(125 000)	65 000	**(60 000)**	(992 213)	**(932 213)**	
Bad debts written off	(2 915 000)	446 000	**(2 469 000)**	(13 941 921)	**(11 472 921)**	
Repairs and maintenance	(14 287 000)	10 206 000	**(4 081 000)**	(3 711 456)	**369 544**	
Bulk purchases	(24 109 000)	-	**(24 109 000)**	(22 604 782)	**1 504 218**	
General Expenses	(41 299 000)	6 849 000	**(34 450 000)**	(28 948 941)	**5 501 059**	
Total expenditure	**(136 110 000)**	**11 778 000**	**(124 332 000)**	**(141 634 930)**	**(17 302 930)**	
Operating deficit	**(23 585 000)**	**11 778 000**	**(11 807 000)**	**(11 461 652)**	**345 348**	
Fair value adjustments	-	-	**-**	13 805	**13 805**	
Actuarial gains/losses	-	-	**-**	200 423	**200 423**	
	-	**-**	**-**	**214 228**	**214 228**	
Deficit before taxation	**(23 585 000)**	**11 778 000**	**(11 807 000)**	**(11 247 424)**	**559 576**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2 000 000	(1 627 000)	**373 000**	7 118 575	**6 745 575**	
Investments	1 825 000	(1 825 000)	**-**	-	**-**	
Receivables from exchange transactions	(14 961 000)	27 253 000	**12 292 000**	14 282 455	**1 990 455**	
Receivables from non-exchange transactions	14 000 000	(12 183 000)	**1 817 000**	5 628 679	**3 811 679**	
VAT receivable	-	-	**-**	7 880 408	**7 880 408**	
Other assets	1 570 000	(1 570 000)	**-**	-	**-**	
Cash and cash equivalents	21 000 000	(5 967 000)	**15 033 000**	3 194 564	**(11 838 436)**	
	25 434 000	**4 081 000**	**29 515 000**	**38 104 681**	**8 589 681**	
Non-Current Assets						
Property, plant and equipment	377 837 000	235 344 000	**613 181 000**	587 062 861	**(26 118 139)**	
Intangible assets	248 000	(57 000)	**191 000**	305 840	**114 840**	
Heritage assets	-	-	**-**	3 929 468	**3 929 468**	
Investments	-	18 409 000	**18 409 000**	10 306 092	**(8 102 908)**	
	378 085 000	**253 696 000**	**631 781 000**	**601 604 261**	**(30 176 739)**	
Total Assets	**403 519 000**	**257 777 000**	**661 296 000**	**639 708 942**	**(21 587 058)**	
Liabilities						
Current Liabilities						
Other financial liabilities	33 000	(33 000)	**-**	-	**-**	
Finance lease obligation	-	-	**-**	128 974	**128 974**	
Payables from exchange transactions	13 596 000	9 806 000	**23 402 000**	9 483 238	**(13 918 762)**	
Consumer deposits	670 000	75 000	**745 000**	721 783	**(23 217)**	
Employee benefit obligation	-	-	**-**	524 203	**524 203**	
Unspent conditional grants and receipts	-	-	**-**	12 890 949	**12 890 949**	
Provisions	3 806 000	(3 271 000)	**535 000**	-	**(535 000)**	
	18 105 000	**6 577 000**	**24 682 000**	**23 749 147**	**(932 853)**	
Non-Current Liabilities						
Other financial liabilities	105 000	(105 000)	**-**	-	**-**	
Finance lease obligation	-	-	**-**	214 628	**214 628**	
Employee benefit obligation	-	-	**-**	5 423 564	**5 423 564**	
Provisions	40 708 000	(27 655 000)	**13 053 000**	5 109 213	**(7 943 787)**	
	40 813 000	**(27 760 000)**	**13 053 000**	**10 747 405**	**(2 305 595)**	
Total Liabilities	**58 918 000**	**(21 183 000)**	**37 735 000**	**34 496 552**	**(3 238 448)**	
Net Assets	**344 601 000**	**278 960 000**	**623 561 000**	**605 212 390**	**(18 348 610)**	
Reserves						
Accumulated surplus	608 576 000	14 985 000	**623 561 000**	605 212 393	**(18 348 607)**	
Total Net Assets	**608 576 000**	**14 985 000**	**623 561 000**	**605 212 393**	**(18 348 607)**	

Accounting Policies

1. Presentation of Financial Statements

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

Allowance for slow moving, damaged and obsolete stock

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

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 19 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

Allowance for doubtful debt and bad debts written off

The Municipality follows a policy that is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000 as amended and other related legislation.

Before any debt is written off there must be proof that the debt has become irrecoverable.

Bad debts write offs must be considered in terms of cost-benefit analysis: meaning when it becomes too costly to recover and the chances of collecting the debts are slim, a write off should be considered.

Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance of one hundred Rand (R100) or less, such account must be forwarded once to the consumer for payment.

The Accounting Officer will, after thorough review of any applicants in terms of this Policy, be delegated to write off any amounts ,outstanding for more than 365 days to the maximum of:

1.) In the case of a household consumer an amount of R100.00 (excluding interest and penalties) per submission; and
2.) In the case of a business consumer an amount of R200.00(excluding interest and penalties) per submission

Provision for bad debts on municipal accounts will therefore be calculated as follows:

1.) Up to 90 days debt is not be considered bad,
2.) 91-120 days 25% of the debt is considered bad,
3.) 121-365 days 50% of the debt is considered bad and
4.) 365 days and more, 100% of the debt is considered bad

1.4 Investment property

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

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

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

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

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

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.

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:

Accounting Policies

1.4 Investment property (continued)

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:

1.5 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life (years)
Buildings		
• Buildings and improvements	Straight line	5 - 60

1.5 Property, plant and equipment (continued)

Other assets		
• Office Equipment	Straight line	3 - 7
• IT equipment	Straight line	3 - 5
• Plant and machinery	Straight line	5 - 25
• Motor vehicles - Specialised vehicles	Straight line	10 - 15
• Motor vehicles - Other vehicles	Straight line	3
• Bins and containers	Straight line	5
• Furniture and fixtures	Straight line	7 - 10
Community		
• Buildings	Straight line	30
• Recreational Facilities	Straight line	20 -30
• Security	Straight line	3 - 5
Infrastructure		
• Roads and Paving	Straight line	3 - 80
• Sewerage/ Solid waste	Straight line	5 - 50
• Water	Straight line	5 - 50
• Electricity	Straight line	10 - 50
• Landfill sites	Straight line	5 - 25

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

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

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

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

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

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

1.6 Site restoration and dismantling cost

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

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

1.7 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.

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.

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	3 years

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 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.

1.8 Heritage assets (continued)

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

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

1.9 Financial instruments

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

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.

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.

1.9 Financial instruments (continued)

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

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

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

Accounting Policies

1.9 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
Bank, Cash and Cash Equivalents – Call Deposits	Financial asset measured at amortised cost
Bank, Cash and Cash Equivalents – Bank	Financial asset measured at amortised cost
Bank, Cash and Cash Equivalents – Cash	Financial asset measured at fair value
Current Portion of Non-current Investments	Financial asset measured at amortised cost

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

Class	Category
Payables from Exchange Transactions	Financial liability measured at amortised cost
Payables from Non-exchange Transactions	Financial liability measured at amortised cost
Current Portion of Long-term Liabilities	Financial liability measured at amortised cost

1.9 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.

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.

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

1.9 Financial instruments (continued)

Presentation

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

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

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

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

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

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

1.10 Tax

VAT

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

1.11 Leases

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

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

Finance leases - lessee

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

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

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

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

Accounting Policies

1.11 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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

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

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

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

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

1.13 Impairment 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

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

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

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

1.14 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.

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

Identification

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

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

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

Accounting Policies

1.15 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 surplus sharing and 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.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality has opted to treat its provision for leave pay and bonusses as accruals.

Defined contribution plans

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

A Defined Contribution Plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality’s contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.15 Employee benefits (continued)

Defined benefit plans

A Defined Benefit Plan is a post-employment benefit plan other than a defined contribution plan.

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 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 is 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 reduces 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.

Post-retirement Health Care Benefits

The entity 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 municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the Projected Unit Credit Method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

Long-service Allowance

1.15 Employee benefits (continued)

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

1.16 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating 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.

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

1.16 Provisions and contingencies (continued)

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 44.

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

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

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

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

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

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

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

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

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

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

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Accounting Policies

1.18 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

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.

1.18 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

1.19 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

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

Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

1.19 Revenue from non-exchange transactions (continued)

Government grants

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

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

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

Other grants and donations

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

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

1.20 Investment income

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

1.21 Comparative figures

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

1.22 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.

1.23 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.

1.24 Irregular expenditure

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

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

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

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

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

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

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

1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

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

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.

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

Accounting Policies

1.26 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 provincial 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.

1.27 Events after reporting date

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

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

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

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

Notes to the Financial Statements

Figures in Rand	2015	2014

2. Changes in accounting policy

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

- GRAP 103: Heritage Assets

Heritage Assets

During the year, the municipality elected to prepare its accounting policy with respect to the treatment of Heritage Assets. In order to conform with the benchmark treatment in of GRAP 103 – Heritage assets. The municipality have retrospectively recognised the full net assets in the Annual Financial Statements.

The comparative amounts have been restated.

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2013 is as follows:

Statement of financial position

	2015	2014
Heritage assets		
Increase/(decrease) due to change in accounting policy	-	3 929 468
Opening retained earnings		
Decrease/(increase) due to change in accounting policy	-	(3 929 468)

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	01 April 2015
• GRAP 105: Transfers of functions between entities under common control	01 April 2015
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015
• GRAP 107: Mergers	01 April 2015
• GRAP 20: Related parties	01 April 2016
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016
• GRAP108: Statutory Receivables	01 April 2016
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016

4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	98 544 657	-	98 544 657	98 544 657	-	98 544 657
Buildings	71 356 174	(26 801 999)	44 554 175	67 765 960	(25 554 397)	42 211 563
Infrastructure	908 951 641	(473 940 081)	435 011 560	897 459 810	(448 000 715)	449 459 095
Other property, plant and equipment	13 180 358	(4 510 931)	8 669 427	14 029 249	(4 196 470)	9 832 779
Leased Assets	400 779	(117 738)	283 041	75 281	(45 076)	30 205
Total	**1 092 433 609**	**(505 370 749)**	**587 062 860**	**1 077 874 957**	**(477 796 658)**	**600 078 299**

Reconciliation of property, plant and equipment - 2015

	Opening balance	**Additions**	**Change in discount factor - Landfill sites**	**Depreciation**	**Impairment loss**	**Total**
Land	98 544 657	-	-	-	-	98 544 657
Buildings	42 211 563	3 590 214	-	(1 247 602)	-	44 554 175
Infrastructure	449 459 095	11 634 664	(142 833)	(25 939 366)	-	435 011 560
Other property, plant and equipment	9 832 779	637 485	-	(1 139 436)	(661 400)	8 669 428
Leased Assets	30 205	382 060	-	(110 100)	(19 124)	283 041
	600 078 299	**16 244 423**	**(142 833)**	**(28 436 504)**	**(680 524)**	**587 062 861**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Capital under construction - Additions**	**Change in discount factor - Landfill sites**	**Depreciation**	**Total**
Land	98 544 657	-	-	-	-	98 544 657
Buildings	36 969 528	2 230 779	3 891 946	-	(880 690)	42 211 563
Infrastructure	459 767 740	10 559 317	4 958 388	(233 966)	(25 592 384)	449 459 095
Other property, plant and equipment	9 955 761	890 880	-	-	(1 013 862)	9 832 779
Leased Assets	22 978	32 443	-	-	(25 216)	30 205
	605 260 664	**13 713 419**	**8 850 334**	**(233 966)**	**(27 512 152)**	**600 078 299**

Pledged as security

None of the tangible assets were pledged as security during the current and previous year:

Assets subject to finance lease (Net carrying amount)

Leased assets - office equipment	283 041	30 205

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2015

	Included within Buildings	Included within Infrastructure	Included within Other PPE	Total
Opening balance	6 947 639	5 870 873	2 423 888	15 242 400
Additions/capital expenditure	3 590 214	11 634 664	-	15 224 878
Work-in-Progress completed during the year	-	(7 346 385)	-	(7 346 385)
	10 537 853	**10 159 152**	**2 423 888**	**23 120 893**

Reconciliation of Work-in-Progress 2014

	Included within Buildings	Included within Infrastructure	Included within Other PPE	Total
Opening balance	18 114 844	11 641 936	2 423 888	32 180 668
Additions/capital expenditure	6 122 917	15 517 705	-	21 640 622
Work-in-Progress completed during the year	(17 290 122)	(21 288 768)	-	(38 578 890)
	6 947 639	**5 870 873**	**2 423 888**	**15 242 400**

Transitional provisions

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

5. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	964 179	(658 339)	305 840	952 565	(501 778)	450 787

Reconciliation of intangible assets - 2015

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	450 788	11 614	(156 562)	305 840

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	466 110	114 947	(130 269)	450 788

Pledged as security

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

6. Heritage assets

	2015			2014		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings	3 670 898	-	3 670 898	3 670 898	-	3 670 898
Mayor's medallion	258 570	-	258 570	258 570	-	258 570
Total	**3 929 468**	**-**	**3 929 468**	**3 929 468**	**-**	**3 929 468**

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Historical buildings	3 670 898	3 670 898
Mayor's medallion	258 570	258 570
	3 929 468	**3 929 468**

Reconciliation of heritage assets 2014

	Opening balance	**Total**
Historical buildings	3 670 898	3 670 898
Mayor's medallion	258 570	258 570
	3 929 468	**3 929 468**

Notes to the Financial Statements

Figures in Rand	2015	2014

7. Investments

Designated at fair value		
Unlisted shares Non-controlling interest of 3600 (2014: 3600) shares in Senwes Limited, 4990 (2014: 4990) shares in Senwes Beleggings and 4000 (2014: 4000) shares in OVK, which are recognised at fair value.	121 030	107 225
	121 030	**107 225**
At amortised cost		
Money Market Investments These are Money Market instruments placed with local financial institutions. FNB account Number 62273244849. Average interest rate for the period 4.25% (2014: 4.25%).	10 185 062	18 302 064
Total other financial assets	**10 306 092**	**18 409 289**

Non-current assets		
Designated at fair value	121 030	107 225
At amortised cost	10 185 062	18 302 064
	10 306 092	**18 409 289**

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Investment in OVK shares The shares are valued as per valuation obtained from the OVK Transfer Secretaries as at 30 June each year.	53 400	42 880
Investment in Senwes Beleggings and Senwes Limited The shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June each year.	67 630	64 345
	121 030	**107 225**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Unlisted shares	121 030	107 225
Level 2		
Money Market investments	10 185 062	18 302 064
	10 306 092	**18 409 289**

Figures in Rand	2015	2014

7. Investments (continued)

Financial assets pledged as collateral

Collateral

Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities	-	1 670 000

8. Employee benefit obligations

Defined benefit plan

The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health Medical Aid Schemes

The members of the Post-employment Health Care Benefit Plan are made up as follows: In-service Members (Employees) 1, In-service Non-members (Employees) 3 and Continuation Members (Retirees, widowers and orphans) 14.

Long Service Awards Liability

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable every 5 years of continuous service, from 5 years of service to 45 years of service, inclusive. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Current-service Cost for the year ending 30 June 2015 is estimated to be R251 665 , whereas the cost for the ensuing year is estimated to be R (30 June 2014: R251 665 and R376 662 respectively).

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr Chanan Weiss BSc FFA, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

Carrying value		
Post-retirement Health Care Benefits Liability	(4 303 285)	(4 161 989)
Long Service Awards Liability	(1 644 482)	(1 789 537)
	(5 947 767)	**(5 951 526)**
Non-current liabilities	(5 423 564)	(5 416 151)
Current liabilities	(524 203)	(535 375)
	(5 947 767)	**(5 951 526)**

Figures in Rand	2015	2014

8. Employee benefit obligations (continued)

Changes in the present value of the Post-employment Medical Aid subsidy obligation are as follows:

Opening balance	4 161 989	3 938 187
Net expense recognised in the statement of financial performance	141 296	223 802
	4 303 285	**4 161 989**

Net expense recognised in the statement of financial performance : Post-employment Medical Aid subsidy obligation

Current service cost	19 010	19 012
Interest cost	326 433	283 691
Actuarial (gains) losses	147 009	255 959
Benefits paid	(351 156)	(334 860)
	141 296	**223 802**

Changes in the present value of the Long Service Awards obligation are as follows:

Opening balance	1 789 537	1 543 000
Net expense recognised in the statement of financial performance	(145 055)	246 537
	1 644 482	**1 789 537**

Net expense recognised in the statement of financial performance : Long Service Awards obligation

Current service cost	251 665	413 000
Interest cost	134 931	108 000
Actuarial gains (losses)	(347 432)	(157 463)
Benefits paid	(184 219)	(117 000)
	(145 055)	**246 537**

Key assumptions used

Assumptions used or the purposes of the actuarial valuations at the reporting date:

Discount rates used - Post-retirement Health Care Benefit Liability	8.20 %	8.18 %
Discount rates used - Long Service Awards Liability	8.09 %	7.92 %
Health Care cost inflation rate - Post-retirement Health Care Benefit Liability	7.49 %	7.66 %
Health Care cost inflation rate - Long Service Awards Liability	7.14 %	7.09 %
Nett effective discount rate - Post-retirement Health Care Benefit Liability	0.66 %	0.48 %
Nett effective discount rate - Long Service Awards Liability	0.89 %	0.78 %

Expected Retirement Age for males and females was 65 years (2014: 65 years).

The basis on which the discount rates have been determined is as follow:

Post-retirement Benefit Liability: The rate is calculated by using a weighted average of yields for the two components (In-service members' retirement liability and Continuation members' liability) of the liability. Each component's fixed-interest (8.20% and 8.14%) and index-linked yield (1.61% and 1.62%) was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

Long Service Awards Liability: This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.37% (2014: 1.25%). These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2014 and 30 June 2015 respectively.

Notes to the Financial Statements

Figures in Rand	2015	2014

8. Employee benefit obligations (continued)

Other assumptions

Amounts for the current and previous four years are as follows:

	2015 R	2014 R	2013 R	2012 R	2011 R
Defined benefit obligation - Post-retirement Health Care Liability	4 303 000	4 162 000	3 938 000	6 404 000	6 019 000
Defined benefit obligation - Long Service Awards Liability	1 644 482	1 789 537	1 543 000	1 366 000	1 063 000
Experience adjustments on plan liabilities - Post-retirement Health Care Liability	205 000	350 000	217 000	(146 000)	-
Experience adjustments on plan liabilities - Long Service Awards Liability	(332 174)	(55 730)	(161)	24	-

9. Prepayments

In the previous period a prepayment was made for SALGA (R 500 000) and an Asset (R 11 879). The SALGA payment related to the 2014/2015 financial year. The asset was delivered and brought in to use in 2014/2015. There ere no prepaymentts made in the current financial period.

10. Inventories

	2015	2014
Maintenance materials	7 107 948	936 636
Water	10 627	19 084
	7 118 575	**955 720**

Inventories are held for own use and measured at the lower of Cost and and net realisable value. No write downs of Inventory to Net Realisable Value were required in the current period.

Inventory pledged as security

No Inventory was pledged as security for overdraft facilities of the municipality.

11. Receivables from exchange transactions

	2015	2014
Consumer debtors - Electricity	1 460 451	1 115 380
Consumer debtors - Other Services	92 644	70 273
Consumer debtors - Refuse	3 731 190	1 903 750
Consumer debtors - Sewerage	3 896 731	1 970 267
Consumer debtors - Water	3 573 085	2 866 180
Deposits	1 286 682	1 222 316
Other receivables	241 671	210 238
	14 282 454	**9 358 404**

Consumer debtors - other services include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry Services like Garden Refuse, Sanitation Bags, etc.

Deposits are in respect of cash deposits made to Eskom for the supply of electricity and Telkom for telephone services.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

Figures in Rand	2015	2014

11. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

At 30 June 2015, R 11 371 650 (2014: R 7 394 119) were past due but not impaired.

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

1 month past due	1 644 267	914 492
2 months past due	1 426 442	998 034
3 months past due	8 300 941	5 481 593

Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R 1 020 148 (2014: R 1 091 063) were impaired and provided for.

The amount of the provision was R (33 360 238) as of 30 June 2015 (2014: R (23 598 777)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	23 598 777	19 230 746
Provision for impairment	9 741 157	3 276 968
Amounts written off as uncollectible	1 020 304	1 091 063
	34 360 238	**23 598 777**

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment. Refer to details in the accounting policy for further details.

12. Receivables from non-exchange transactions

Consumer debtors - Rates	5 628 679	3 209 782

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

Receivables from non-exchange transactions past due but not impaired

At 30 June 2015, R 4 557 455 (2014: R 2 789 638) were past due but not impaired.

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

1 month past due	892 272	457 411
2 months past due	849 703	37 659
3 months past due	2 815 480	1 956 168

Receivables from non-exchange transactions impaired

As of 30 June 2015, other receivables from non-exchange transactions of R 64 955 (2014: R 33 155) were impaired and provided for.

The amount of the provision was R 13 217 001 as of 30 June 2015 (2014: R 8 714 958).

Notes to the Financial Statements

Figures in Rand	2015	2014

12. Receivables from non-exchange transactions (continued)

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

Opening balance	8 714 958	7 649 865
Provision for impairment	4 437 088	1 031 938
Amounts written off as uncollectible	64 955	33 155
	13 217 001	**8 714 958**

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

13. VAT receivable

VAT	7 880 408	2 329 121

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

14. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	18 845 680	11 924 740
Consumer debtors - Electricity	3 610 456	2 782 215
Consumer debtors - Water	14 298 139	10 346 841
Consumer debtors - Sewerage	14 322 235	8 906 955
Consumer debtors - Refuse	13 993 327	8 730 937
Consumer debtors - Other Services	890 185	757 680
	65 960 022	**43 449 368**
Less: Allowance for impairment		
Consumer debtors - Rates	(13 217 001)	(8 714 958)
Consumer debtors - Electricity	(2 150 005)	(1 666 835)
Consumer debtors - Water	(10 725 054)	(7 480 662)
Consumer debtors - Sewerage	(10 425 504)	(6 936 688)
Consumer debtors - Refuse	(10 262 134)	(6 827 185)
Consumer debtors - Other Services	(797 542)	(687 407)
	(47 577 240)	**(32 313 735)**
Net balance		
Consumer debtors - Rates	5 628 679	3 209 782
Consumer debtors - Electricity	1 460 451	1 115 380
Consumer debtors - Water	3 573 085	2 866 180
Consumer debtors - Sewerage	3 896 731	1 970 267
Consumer debtors - Refuse	3 731 193	1 903 752
Consumer debtors - Other Services	92 644	70 273
	18 382 783	**11 135 634**

Figures in Rand	2015	2014

14. Consumer debtors disclosure (continued)

Included in above is receivables from exchange transactions		
Electricity	1 460 451	1 115 380
Water	3 573 085	2 866 180
Sewerage	3 896 731	1 970 267
Refuse	3 731 193	1 903 752
Other Services	92 644	70 273
	12 754 104	**7 925 852**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	5 628 679	3 209 782
Net balance	**18 382 783**	**11 135 634**
Rates		
Current (0 -30 days)	890 604	420 145
31 - 60 days	892 272	457 411
61 - 90 days	849 703	367 059
> 90 days	2 996 100	1 965 167
	5 628 679	**3 209 782**
Electricity		
Current (0 -30 days)	361 254	524 117
31 - 60 days	232 878	124 274
61 - 90 days	91 572	108 108
> 90 days	774 747	358 881
	1 460 451	**1 115 380**
Water		
Current (0 -30 days)	606 161	889 813
31 - 60 days	407 944	300 696
61 - 90 days	347 010	409 722
> 90 days	2 211 970	1 265 949
	3 573 085	**2 866 180**
Sewerage		
Current (0 -30 days)	516 645	250 490
31 - 60 days	509 452	247 650
61 - 90 days	502 910	241 944
> 90 days	2 367 724	1 230 183
	3 896 731	**1 970 267**
Refuse		
Current (0 -30 days)	489 271	230 498
31 - 60 days	481 917	232 886
61 - 90 days	473 797	230 419
> 90 days	2 286 208	1 209 949
	3 731 193	**1 903 752**

Notes to the Financial Statements

Figures in Rand	2015	2014

14. Consumer debtors disclosure (continued)

Other services		
Current (0 -30 days)	11 169	-
31 - 60 days	12 075	-
61 - 90 days	11 153	-
> 90 days	58 247	70 273
	92 644	**70 273**

Summary of debtors by customer classification

Consumers/ household		
Current (0 -30 days)	1 736 313	909 090
31 - 60 days	1 606 142	723 000
61 - 90 days	1 467 330	776 171
> 90 days	39 380 763	22 304 454
	44 190 548	24 712 715
Less: Allowance for impairment	(31 834 507)	(18 955 375)
	12 356 041	**5 757 340**

Industrial/ commercial		
Current (0 -30 days)	724 164	126 222
31 - 60 days	566 165	68 998
61 - 90 days	478 530	50 722
> 90 days	11 345 113	1 496 447
	13 113 972	1 742 389
Less: Allowance for impairment	(9 738 186)	(355 973)
	3 375 786	**1 386 416**

National and provincial government		
Current (0 -30 days)	414 440	153 014
31 - 60 days	364 051	122 297
61 - 90 days	330 088	171 104
> 90 days	6 226 153	3 907 150
	7 334 732	4 353 565
Less: Allowance for impairment	(4 918 256)	(3 369 407)
	2 416 476	**984 158**

Reconciliation of allowance for impairment		
Balance at beginning of the year	32 313 735	26 880 611
Contributions to allowance	14 178 246	4 308 906
Amounts written off as uncollectible	1 085 259	1 124 218
	47 577 240	**32 331 735**

Figures in Rand	2015	2014

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 295	810
Bank balances	3 193 269	15 032 025
	3 194 564	**15 032 835**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand and Cash in Banks, net of outstanding Bank Overdrafts.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balanc**		
	30 June 2015	**30 June 2014**	**30 June 2013**	**30 June 2015**	**30 June 2014**	**3**
First National Bank - Current Account Number 527115689918 and ABSA Bank - Current Account number 4048034774	3 196 595	16 027 494	1 901 060	3 193 269	15 032 025	

The municipality maintains one cash book for its primary bank account with First National Bank and the ABSA bank account.

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

16. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2015

	Donations and public contributions	**Total**
Opening balance	2 022 113	2 022 113

Ring-fenced internal funds and reserves within accumulated surplus - 2014

	Donations and public contributions	**Total**
Opening balance	2 022 113	2 022 113

Notes to the Financial Statements

Figures in Rand	2015	2014

17. Finance lease obligation

Minimum lease payments due		
- within one year	270 105	57 735
- in second to fifth year inclusive	281 709	14 263
	551 814	71 998
less: future finance charges	(208 211)	(29 905)
Present value of minimum lease payments	**343 603**	**42 093**

Present value of minimum lease payments due		
- within one year	128 974	30 880
- in second to fifth year inclusive	214 629	11 213
	343 603	**42 093**

Non-current liabilities	214 628	12 564
Current liabilities	128 974	29 529
	343 602	**42 093**

It is municipality policy to lease certain copiers and cell phones under finance leases.

The average lease term was 3 years for copier leases, 2 years for cell phones and the average effective borrowing rate was 9% (2014: 9%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	2 369 799	735 628
Department of Roads and Transport Grant	1 416 404	1 416 404
Department of Water affairs Grant (DWA)	8 989 746	11 041 819
Department of Health Grant (DOH)	115 000	115 000
Accelerated Community Development Programme (ACIP)	-	404 475
	12 890 949	**13 713 326**

Movement during the year

Balance at the beginning of the year	13 713 326	1 878 724
Additions during the year	70 552 000	78 144 500
Income recognition during the year	(71 374 377)	(66 309 898)
	12 890 949	**13 713 326**

The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

See note 29:Government grants and subsidies for reconciliation of grants from National/Provincial Government.

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

Figures in Rand	2015	2014

19. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Unwinding of interest	Change in discount factor	Total
Environmental rehabilitation	7 298 282	508 089	(2 697 158)	5 109 213

Reconciliation of provisions - 2014

	Opening Balance	Prior period error	Unwinding of interest	Total
Environmental rehabilitation	7 158 483	(317 840)	457 639	7 298 282

Environmental rehabilitation provision

In terms of the licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R 7 298 284 (2014: R 6 840 645) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate adjusted for municipal specific risks.

The Inflation rate used to calculated the cost to rehabilitate the landfill sites at the end of their useful lives is 6%. The discounting rate of 9.32% (2014: 6.69%) was calculated by using the average Government bond yield rate (2014: Investment rate) relevant to the remaining usefull lives of all the sites. In the current year an average bond yield rate of 8.79% adjusted for risks specific to the municipality was used. Refer to note 48. The main risks included in the discounting rate adjustment was that no weight bridges at sites. No records to keep track of vehicles entering the sites and no control over the waste types entering the sites. No traces of medical waste was found.

The provision was based on 100% of the lanfill site areas as the total area is used for dumping of waste. Dumping is not limited to a certain portion of the landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on 100%.

	Proposed Rehabilitation		
Jacobsdal	2028/2029	1 494 391	2 065 461
Koffiefontein	2038/2039	837 579	1 373 848
Luckhoff	2028/2029	873 822	1 127 395
Oppermansdorp	2032/2033	903 016	1 279 648
Petrusburg	2033/2034	1 000 405	1 451 932
		5 109 213	**7 298 284**

20. Payables from exchange transactions

Accrued bonus	759 407	589 882
Accrued expenses	2 501 643	4 989 541
Accrued leave pay	2 217 401	1 836 474
Deffered income - Prepaid electricity	83 077	50 919
Deposits received	-	1 463
Employee related liabilities	733 207	130 989
Payments received in advanced - debtors	508 814	1 109 876
Retention monies	146 900	475 157
Unknown deposits	2 532 789	922 896
	9 483 238	**10 107 197**

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

Figures in Rand	2015	2014

20. Payables from exchange transactions (continued)

The Defered revenue arises from pre-paid electricity sold in the current year that was not consumed before the end of June 2015.

Included in Employee related liabilities are the amounts outstanding as settled between the Municipality and the former employees Mr. M.V. Morobane R 560 000 (2014: R 0) and Mr. J Mongalo R 173 206. 53 (2014: R 0). For more detail refer to note 44 : Contingencies

21. Consumer deposits

Electricity	217 346	222 174
Water	504 436	471 173
	721 782	**693 347**

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

22. Revenue

Administration and management fees received	-	253 242
Dividends received	4 515	3 059
Fees earned	-	88 852
Fines, Penalties and Forfeits	4 500	48 520
Government grants & subsidies	71 374 377	78 310 498
Interest received (trading)	4 743 169	2 637 190
Interest received - investment	1 849 970	1 106 751
Licences and permits	-	923
Other income - (rollup)	2 554 325	-
Property rates	14 563 811	9 311 908
Recoveries	3 517 136	-
Rental of facilities and equipment	245 348	344 867
Service charges	31 316 127	27 071 657
Sundry income	-	97 205
Sundry municipal service income	-	287 620
	130 173 278	**119 562 292**

Administration and management fees received	-	253 242
Dividends received	4 515	3 059
Fees earned	-	88 852
Interest received (trading)	4 743 169	2 637 190
Interest received - investment	1 849 970	1 106 751
Licences and permits	-	923
Other income - (rollup)	2 554 325	-
Recoveries	3 517 136	-
Rental of facilities and equipment	245 348	344 867
Service charges	31 316 127	27 071 657
Sundry income	-	97 205
Sundry municipal service income	-	287 620
The amount included in revenue arising from exchanges of goods or services are as follows:		
	44 230 590	**31 891 366**

Figures in Rand	2015	2014

22. Revenue (continued)

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

Taxation revenue		
Property rates	14 563 811	9 311 908
Transfer revenue		
Government grants & subsidies	71 374 377	78 310 498
Fines, Penalties and Forfeits	4 500	48 520
	85 942 688	**87 670 926**

23. Service charges

Sale of electricity - pre-paid	8 487 308	8 310 829
Sale of electricity	5 674 278	6 362 970
Sale of water	5 159 123	4 966 605
Sewerage and sanitation charges	6 245 959	3 770 576
Refuse removal	5 749 460	3 660 678
	31 316 128	**27 071 658**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

24. Rental of facilities and equipment

Premises		
Premises	245 348	285 735
Venue hire	-	24 015
	245 348	**309 750**
Facilities and equipment		
Rental of equipment	-	35 117
	245 348	**344 867**

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

25. Other revenue

Administration and management fees received - third party	-	253 242
Fees earned	-	88 852
Insurance claim proceeds: Key man policy	3 517 136	-
Other income - (rollup)	2 554 325	-
Other municipal service income	-	287 620
Sundry income	-	97 205
	6 071 461	**726 919**

26. Other income

Profit on change in estimate - Landfill sites	2 554 325	-

The income occured due to a change in estimate. The decrease in the Landfill site rehabilitation provision resulted in a profit in accordance with GRAP. Income was recognised for the portion of the change in estimate (R 2 697 158) exceeding the carrying amount of the Landfill site assets (R 142 833). Refer to note 47

Figures in Rand	2015	2014

27. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	4 515	3 059
Interest revenue		
Investments	1 849 970	1 106 751
	1 854 485	**1 109 810**

28. Property rates

Rates received

Residential	14 563 811	9 311 908

Valuations

Residential	543 576	543 576 000
Commercial	163 187	163 187 000
State	87 817	87 817 000
Municipal	368 086	368 086 000
Small holdings and farms	1 671 639	1 671 639 000
Other	52 579	52 579 000
	2 886 884	**2 886 884 000**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.52 (2014: R 0.41) is applied to property valuations in terms of the Property Rates Act to determine assessment rates. Rebates of 9.00% (2014: 8.33%) are granted to residential and state property owners.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

Figures in Rand	2015	2014

29. Government grants and subsidies

Operating grants		
National: Equitable share	50 185 000	50 434 000
Capital grants		
Financial Management Grant (FMG)	1 800 000	1 650 000
MSIG	934 000	890 000
DWA	2 052 073	2 292 181
MIG	13 638 829	20 236 372
COGTA	-	347 320
ACIP	1 754 475	1 460 625
EPWP	1 010 000	1 000 000
	21 189 377	**27 876 498**
	71 374 377	**78 310 498**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	21 189 377	27 876 498
Unconditional grants received	50 185 000	50 434 000
	71 374 377	**78 310 498**

National: Equitable Share

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

All registered indigents receive a monthly subsidy of R 172 (2014: R 166), based on the monthly billing which is funded from the grant. Al residential households receive 6 kl water and 50kWh electricity (indigents only) free every month. No amount was withheld during the year.

National: MIG funds

Balance unspent at beginning of year	735 628	-
Current-year receipts	16 009 000	20 972 000
Conditions met - transferred to revenue: Capital expenses	(13 638 829)	(20 236 372)
Amount off set agianst Equitable share	(736 000)	-
	2 369 799	**735 628**

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households,micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. An amount of R 1 245 000 was withheld during the current year.

National: EPWP Grant

Current-year receipts	-	1 000 000
Conditions met - transferred to revenue: Operating expenses	-	(1 000 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The Expanded Public Works Programme Grant was allocated to the municipality for environmental and water infrastructure projects. No amount was withheld during the year.

Figures in Rand	2015	2014

29. Government grants and subsidies (continued)

National: FMG Grant

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

Conditions still to be met - remain liabilities (see note 18).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

National: MSIG Funds

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

Conditions still to be met - remain liabilities (see note 18).

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

National: Cooperative Government & Traditional Affairs (COGTA)

Current-year receipts	-	347 320
Conditions met - transferred to revenue	-	(347 320)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was received for the payment of the CFO's salary. No funds were witheld.

Provincial: Roads and Transport Grant

Balance unspent at beginning of year	1 416 404	1 416 404

Conditions still to be met - remain liabilities (see note 18).

The grant was used to finance the upgrading and construction of the street network within the municipal boundaries. No amount was witheld during the year.

National: Department Water Affairs (DWA) - Other Capital Projects

Balance unspent at beginning of year	11 041 819	-
Current-year receipts	-	13 334 000
Conditions met - transferred to revenue	(2 052 073)	(2 292 181)
	8 989 746	**11 041 819**

Conditions still to be met - remain liabilities (see note 18).

To facilitate the planning, acceleration and implementation of various projects that will insure water supply to communities identified as not receiving a basic water supply service. No amount was witheld during the year.

Notes to the Financial Statements

Figures in Rand	2015	2014

29. Government grants and subsidies (continued)

Provincial: Health Subsidies

Balance unspent at beginning of year	115 000	115 000

Conditions still to be met - remain liabilities (see note 18).

This grant has been used to fund environmental health care services, which services are in a process of being transferred to Provincial Government. This grant will then fall away. No funds have been withheld.

Provincial: Accelerated Community Development Programme (ACIP)

Balance unspent at beginning of year	404 475	1 865 100
Current-year receipts	1 350 000	-
Conditions met - transferred to revenue	(1 754 475)	(1 460 625)
	-	**404 475**

The purpose of this grant is for the upgrading of the Koffiefontein sewer pump system. No amount was witheld during the year.

Conditions still to be met - remain liabilities (see note 18).

Changes in level of government grants

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

Figures in Rand	2015	2014

30. Employee related costs

Bonuses	-	127 270
Car allowance	1 707 322	1 992 697
Contribution to pension fund	2 637 898	2 006 121
Defined benefit plan expenditure	196 664	(32 157)
Housing benefits and allowances	332 465	337 616
Industrial council	15 174	9 283
Leave pay provision charge	2 093 268	1 010 600
Long-service awards	121 522	-
Medical aid - company contributions	1 753 492	1 203 963
Overtime payments	3 695 197	1 899 946
Salaries and wages	25 389 976	19 857 260
Telephone allowance	86 200	67 532
UIF	239 811	162 887
Workmans compensation contributions	575 555	297 411
	38 844 544	**28 940 429**

Remuneration of municipal manager

Annual Remuneration	636 625	616 602
Car Allowance	212 208	70 824
Contributions to UIF, Medical and Pension Funds	8 140	-
Other	-	130 293
Acting Allowance	6 475	39 425
	863 448	**857 144**

Mr. B.A. Mnguni was appointed 1 August 2014 as Municipal Manager.

Remuneration of chief finance officer

Annual Remuneration	275 486	772 959
Car Allowance	18 000	24 000
Cell phone allowance	2 500	5 400
Contributions to UIF, Medical and Pension Funds	30 579	45 204
Other	49 755	1 066
Acting Allowance	33 364	59 899
	409 684	**932 074**

Mr. Z. Manjiya held the position of CFO for the period 1 July 2014 till 31 August 2014.

Mr L. Mashiane acted as CFO from 1 September 2014 to 31 March 2015.

Ms. J. Mazinyo is the current acting CFO. She started acting as CFO from 1 April 2015.

The remuneration of all the above mentioned was disclosed as part of the remuneration of the Chief Financial Officer.

Remuneration of the Manager: Community Services

Annual Remuneration	493 296	358 851
Telephone Allowance	5 000	-
Contributions to UIF, Medical and Pension Funds	71 927	111 027
Acting Allowance	77 017	132 029
Car Allowance	105 000	72 000
Other	9 564	10 735
	761 804	**684 642**

Notes to the Financial Statements

Figures in Rand	2015	2014

30. Employee related costs (continued)

Renumeration of the Manager: Technical Services

Annual Remuneration	699 771	613 500
Car Allowance	151 563	148 069
Acting allowance	69 866	-
Contributions to UIF, Medical and Pension Funds	27 654	-
Other	12 257	21 203
Telephone Allowance	7 500	-
	929 056	**787 772**

Renumeration of the Manager: Corporate Services

Annual Remuneration	237 000	173 967
Car Allowance	63 000	32 000
Contributions to UIF, Medical and Pension Funds	-	14 549
Telephone Allowance	5 000	2 000
Acting Allowance	85 493	112 106
Other	8 535	-
	399 028	**334 622**

31. Remuneration of councillors

Mayor	693 630	662 110
Councillors	2 449 837	2 413 074
	3 143 467	**3 075 184**

32. Administrative expenditure

Administration and management fees - third party	174 019	14 331

33. Depreciation and amortisation

Property, plant and equipment	28 593 065	27 731 742

34. Impairment of assets

Impairments

Property, plant and equipment	680 523	-

Property, plant and equipment have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment.

35. Finance costs

Bank	992 213	599 320

36. Debt impairment

Contributions to debt impairment provision	12 981 963	3 896 491
Bad debts written off	959 958	1 000 209
	13 941 921	**4 896 700**

Notes to the Financial Statements

Figures in Rand	2015	2014

37. Bulk purchases

Electricity	18 850 444	17 499 255
Water	3 754 339	5 292 712
	22 604 783	**22 791 967**

38. General expenses

Accommodation cost	755 817	767 007
Advertising	294 671	367 244
Auditors remuneration	2 810 476	3 287 450
Bank charges	248 761	159 298
Chemicals	1 518 006	1 647 922
Consulting and professional fees	4 871 773	5 509 468
Consumables	457 682	74 115
Donations	233 206	-
Electricity	3 536 913	2 486 030
Entertainment	119 060	384 691
Fines and penalties	-	2 300
Fuel and oil	1 011 038	933 117
Funeral cost	36 417	27 138
Hire	1 881 750	3 237 371
IT expenses	333 137	93 446
Insurance	3 719 297	440 550
Postage and courier	15 998	94 847
Printing and stationery	388 327	664 432
Refuse	-	979
Royalties and license fees	97 273	541 279
Special events and programs	1 097 744	576 464
Subscriptions and membership fees	549 354	1 497
Sundry expenses	886 906	1 075 488
Telephone and fax	1 581 709	2 193 230
Training	530 314	150 026
Travel - local	1 162 912	671 548
Uniforms	216 510	161 186
WARD committee expense	264 246	165 500
Water tests	329 645	700 747
	28 948 942	**26 414 370**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

Sundry expenses include the expenditure to settle the amounts owed to the two former employees. Refer to note 44: Contingencies for further information.

Insurance expenses include the claims received by the Municipality in 2014/2015. The proceeds was paid over to the beneficiaries of the key man policies paid by the Municipality.

No other extra-ordinary expenses were incurred.

39. Fair value adjustments

Other financial assets		
• Other financial assets - Unlisted shares (Designated as at FV through P&L)	13 805	14 475

Notes to the Financial Statements

Figures in Rand	2015	2014

40. Auditors' remuneration

Fees	2 810 476	3 287 450

41. Cash (used in) generated from operations

(Deficit) surplus	(11 247 423)	1 855 512
Adjustments for:		
Depreciation and amortisation	28 593 065	27 731 742
Fair value adjustments	(13 805)	(14 475)
Finance costs - Finance leases	137 048	-
Impairment deficit	680 523	-
Debt impairment	13 941 921	4 896 700
Movements in employee benefit liabilities	(3 759)	470 339
Movements in provisions	(2 189 070)	139 799
Prior period errors corrected	-	923 918
Changes in working capital:		
Inventories	(6 162 855)	(582 482)
Receivables from exchange transactions	(4 924 051)	(5 132 615)
Consumer debtors	(13 941 921)	(4 896 700)
Other receivables from non-exchange transactions	(2 418 896)	(2 587 358)
Payments in advance	511 879	(511 879)
Payables from exchange transactions	(623 958)	143 319
VAT	(5 551 287)	2 149 727
Unspent conditional grants and receipts	(822 377)	11 834 603
Consumer deposits	28 436	78 487
	(4 006 530)	**36 498 637**

42. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At fair value	At amortised cost	Total
Money Market Investments	-	10 185 062	10 185 062
Investment in Unlisted shares	121 030	-	121 030
Other receivables from non-exchange transactions	-	5 628 679	5 628 679
Consumer debtors	-	14 282 454	14 282 454
Cash and cash equivalents	-	3 194 564	3 194 564
Cash Floats and Advances	1 295	-	1 295
VAT	-	7 880 408	7 880 408
	122 325	**41 171 167**	**41 293 492**

Notes to the Financial Statements

Figures in Rand	2015	2014

. Financial instruments disclosure (continued)

Financial liabilities

	At fair value	At amortised cost	Total
Unspent conditional grants and receipts	12 890 949	-	12 890 949
Trade and other payables from exchange transactions	-	9 483 238	9 483 238
Consumer deposits	-	721 782	721 782
Employee benefit obligation	5 947 767	-	5 947 767
Provisions	-	7 818 707	7 818 707
Finance leases	-	343 602	343 602
Provisions	-	5 109 213	5 109 213
	18 838 716	**23 476 542**	**42 315 258**

2014

Financial assets

	At fair value	At amortised cost	Total
Money Market Investments	-	18 302 064	18 302 064
Investment in Unlisted shares	107 225	-	107 225
Trade and other receivables from exchange transactions	-	9 358 404	9 358 404
Other receivables from non-exchange transactions	-	3 209 782	3 209 782
Cash and cash equivalents	-	15 032 025	15 032 025
Cash Floats and Advances	810	-	810
VAT	-	2 329 121	2 329 121
Prepayments	-	511 879	511 879
	108 035	**48 743 275**	**48 851 310**

Financial liabilities

	At fair value	At amortised cost	Total
Unspent conditional grants and receipts	13 713 326	-	13 713 326
Trade and other payables from exchange transactions	-	10 107 197	10 107 197
Finance leases	-	42 093	42 093
Consumer deposits	-	693 347	693 347
Employee benefit obligation	5 951 526	-	5 951 526
Provisions	-	7 298 282	7 298 282
	19 664 852	**18 140 919**	**37 805 771**

Financial instruments in Statement of financial performance

2015

	At fair value	Total
Net gains on financial instruments	13 805	13 805

2014

	At fair value	Total
Net gains on financial instruments	14 750	14 750

Notes to the Financial Statements

Figures in Rand	2015	2014

43. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment - Infrastructure	8 395 014	3 805 504
Total capital commitments		
Already contracted for but not provided for	8 395 014	3 805 504

Total commitments

Total commitments		
Authorised capital expenditure	8 395 014	3 805 504

This committed expenditure relates to property, plant and equipment and will be financed from own resources.

44. Contingencies

Court Proceedings:

(i) Termination of Contract: Mr. V.M. Morobane

The municipality is being sued by the plaintiff, Mr. V.M. Morobane for unfair dismissal and/ or unfair labour practice. Mr. V.M. Morobane resigned after he was allegedly treated unfair by Management. He resigned by letter on 11 February 2010. He was employed in terms of fixed term contract for five years as Corporate Service Manager on 6 September 2006. Mr VM Morobane's condition for resigning was that he should be paid the remainder of his contract of employment. Council conveyed a letter which stated that the resignation was accepted and he would not be paid for the remainder of his contract. Mr VM Morobane subsequently issued summons in the Free State High Court for payment of the unpaid salary amounting to R 771 567. The High Court dismissed the grounds of defence. Appeal against the High Court's judgement was made and the Supreme Court of Appeal. The appeal was scheduled to be heard in High Court on 24-28 November 2014 and 1-5 December 2014. The municipality however reached a settlement with Mr. V.M. Morobane in January 2015. The Municipality will pay Mr. Morobane R 760 000 which includes legal fees of R 60 000. The amount will be paid in 5 monthly installments of R 140 000 each starting 30 April 2015. The contingency only existed on 30 June 2014. No contingency existed on 30 June 2015 as the liability was recognised as a payable during the 2014/2015 financial period . Refer to note 20 : Payables from exchange transactions.

(ii) Review application : J Mongalo

The municipality was reviewing an award to pay R 105 000 to Mr. J Mongalo. The estimated litigation was R 100 000 in the previous financial year. The municipality however reached a settlement with Mr. J Mongalo in January 2015. The Municipality will pay Mr. Mongola R 173 207. The amount will be paid in 5 monthly installments of R 34 361 each starting 31 July 2015. The contingency only existed on 30 June 2014. No contingency existed on 30 June 2015 as the liability was recognised as a payable during the 2014/2015 financial period . Refer to note 20 : Payables from exchange transactions.

(iii) Contingent liability - Unlicensed landfill sites:

The municipality managed 3 landfill sites without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community.

Figures in Rand	2015	2014

44. Contingencies (continued)

Contingent assets

No events having financial implications requiring disclosure occurred subsequent to 30 June 2015.

45. Related parties

During the year there were no related party transactions. The Municipality has various processes in place to identify and note any related party balances and transactions. These range from disclosure on the bid documents to maintenance of a conflict register for councillors and senior managers, this is kept in the office of the Municipal Manager.

46. Accounting Officer`s and prescribed officer`s remunerations

Municipal Manager

2015

	Remuneration	Car allowance	Acting allowance	Contributions to UIF, Medical and Pension Funds	Total
Mr. B.A. Mnguni (held position from 01/08/2014)	636 625	212 208	-	8 140	856 973
Mr. Z. Manjiya (Acting MM - 01/07/2014 - 31/07/2014)	-	-	6 475	-	6 475
	636 625	**212 208**	**6 475**	**8 140**	**863 448**

2014

	Remuneration	Other benefits*	Car allowance	Acting allowance	Total
Mr. I.E. POöE (resigned 28 February 2014)	616 602	130 293	70 824	-	817 719
Mr. Z. Manjiya (Acting MM from 1 November 2013)	-	-	-	39 425	39 425
	616 602	**130 293**	**70 824**	**39 425**	**857 144**

Section 56 Managers

2015

	Remuneration	Car Allowance	Telephone Allowance	Other benefits*	Total
Chief Financial Officer					
Z. Manjiya (Acting CFO 01/07/2014 - 31/08/2014)	136 667	-	1 000	1 979	139 646
L. Mashiane (Acting 01/09/2014 - 31/03/2015)	59 792	-	-	619	60 411
J Mazinyo (01/04/2015 - Current)	123 000	18 000	1 500	67 127	209 627
Community Services					
T.A. Reachable (Acting till date of appointment on 01/02/2015)	570 313	105 000	5 000	81 491	761 804
Corporate Services					
T. Deeuw (Acting till date of appointment 01/02/2015)	322 493	63 000	5 000	8 535	399 028
Technical Services					
N.C. GAELEJWE (Acting 01/07/2014 - 30/11/2014)	508 161	106 850	4 000	5 988	624 999
K.R. Bapela (Acting 01/12/2014 - 30/04/2015)	181 517	44 713	2 500	32 803	261 533
M. Tlali (Acting 01/05/2015 - Current)	79 958	-	1 000	1 121	82 079
	1 981 901	**337 563**	**20 000**	**199 663**	**2 539 127**

46. Accounting Officer`s and prescribed officer`s remunerations (continued)

2014

	Remuneration	Car Allowance	Telephone Allowance	Other benefits*	Total
Chief Financial Officer					
S. Busakwe (Acting till 31/10/2013)	273 806	24 000	1 400	40 205	339 411
Z. Manjiya (CFO appointed 01/11/2013)	559 042	-	4 000	6 075	569 117
Community Services					
T.A. Reachable - Acting	490 881	72 000	-	121 762	684 643
Corporate Services					
N.J. Mbonani (Acting till 31/10/2013)	173 967	32 000	2 000	14 549	222 516
F. Wetes (01/12/2013 - 28/02/2014)	63 253	-	-	-	63 253
T. Deeuw (Acting from 01/04/2014)	48 853	-	-	-	48 853
Technical Services					
N.C. GAELEJWE (Acting)	613 530	148 069	6 000	7 315	774 914
	2 223 332	**276 069**	**13 400**	**189 906**	**2 702 707**

Council

2015

	Remuneration	Other benefits*	Telephone allowance	Car allowance	Total
T.I. Reachable (Mayor)	672 763	6 936	20 868	-	700 567
M.A. Mpatshehla	223 014	5 271	20 868	36 000	285 153
S Lecoko (1 July – December 2014)	101 814	884	8 695	-	111 393
P.S. Musa (Appointed March 2015)	50 457	557	5 217	-	56 231
V.A. Mona	160 601	746	41 228	-	202 575
P Louw	259 014	-	20 868	1 105	280 987
L Greef	165 829	841	20 868	36 000	223 538
V Coetzee	165 829	841	20 868	36 000	223 538
K. Nel	165 829	841	20 868	36 000	223 538
M.M. Tsiloana	259 014	1 105	20 868	-	280 987
M.U. Jantjies	241 014	1 066	20 868	18 000	280 948
P.M. Dibe	223 014	1 066	20 868	36 000	280 948
	2 688 192	**20 154**	**242 952**	**199 105**	**3 150 403**

46. Accounting Officer`s and prescribed officer`s remunerations (continued)

2014

	Emoluments	Other benefits*	Telephone allowance	Car allowance	Total
T.I. Reachable (Mayor)	635 347	6 560	20 204	-	662 111
M.A. Mpatshehla	207 475	2 508	6 956	50 786	267 725
S Lecoko	221 403	2 487	15 220	15 112	254 222
V.A. Mona	147 434	1 790	-	44 547	193 771
P Louw	250 001	2 652	15 220	-	267 873
L Greef	153 832	1 991	15 220	42 223	213 266
V Coetzee	153 832	1 991	15 220	42 223	213 266
K. Nel	153 832	1 991	15 220	42 223	213 266
M.M. Tsiloana	233 349	2 587	-	31 872	267 808
M.U. Jantjies	199 215	2 508	15 220	50 786	267 729
P.M. Dibe	201 847	2 415	15 220	34 667	254 149
	2 557 567	**29 480**	**133 700**	**354 439**	**3 075 186**

* Other benefits comprise of contributions to UIF, SDL, Medical and Pension Funds

47. Change in estimate

Provision for the rehabilitation of Land-fill sites

The discount rate (weighted average cost of capital) used in 2015 of 6.95% was estimated using the interest rate on investment adjusted for risk. In the current year the municipality used 44% of the funds in the investment for other activities of the municipality. If the municipality continues at this rate, no funds will be left in the investment account at the end of the useful life of the landfill sites. Management needed to revised their estimate due to the uncertainty. The revised discount rate was calculated using the government bond yield rate, adjusted for site specific risks, relevant to the remaining useful life of the landfill sites. The revised discounting rate lead to a decreased in the net present value of the provision for landfill-site rehabilitation for the current and future periods of R 2 697 158

The effect of this revision lead to the decrease in the net present value of future payments, resulting in a decrease of R 2 697158 for the current period in the unwinding of interest.

48. Prior period errors

The provision for revenue usage in June 2013 and June 2014 billed after year end was erroneously accounted for in the 2013/2014 Annual Financial Statements. The amounts for water (R 365 856) and electricity (R 347 717) that was omitted amounted to R 713 573.

Building renovation expenditure was incorrectly classified as Repairs and Maintenance expenditure in the 2013/2014 Annual Financial Statements. Increase of R 78 400 in Buildings - cost and a decrease of R 78 400 in Repairs and Maintenance expenditure occurred.

Capitalising cell phone contracts for the 2012/2013 and 2013/2014 financial periods. The cell phone contracts qualify as Finance leases i.T.O. GRAP 13 : Leases. Cell phones with a cost of R 42 839 was capitilised in 2012/2013. Lease liabilities increased by R 34 152. Opening Accumulated Surplus or Deficit increased by R 8 687. In 2013/2014 Cell phones with a cost of R 32 442 was capitilised. The increase in the Lease liability amounted to R 7 940 while the Telephone expenditure decreased by R 69 835 and interest expense increased by R 45 334.

Correction of Other assets capitilised in the incorrect period. Increase in Other assets R 4 291. Increase in payments in advance of R 11 879, Increase in Sundry payables R 17 865 and a increase in Network and server expenses of R 1 685 occurred.

Property, Plant and Equipment have been restated. The restatement occurred due to condition assessments done on all asset classes. The infra structure networks were also evaluated and restatements were made. Opening Accumulated Surplus or Deficit increased with R 75 360 249 while the opening balance - cost for Land and Buildings (R 162 473) and Infra structure (R 205 946 713) have increased respectively. Increase in Infra structure accumulative depreciation was R 214 661 465 . The opening balance of Other assets was restated which lead to a decrease in the cost of R 34 703, a decrease of accumulative depreciation of R 1 631 286. Intangibles was reassessed leading to an increase in depreciation of R 75 000 and a decrease in Accumulative depreciation of R 260 034. Due to the restatement of assets the depreciation and Accumulative depreciation for Infrastructure assets increased with R 8 480 537.

Correction of Eskom deposits held. The movement in the deposits held by Eskom was incorrectly recorded in 2013/2014. Decrease in Receivables from non-exchange transactions R 7 243 and an increase in Electricity expense of R 7 243 occurred.

Correction of inventory for the 2013/2014 posted to expenditure votes. The values was obtained during the current financial period. Increase in Inventory R 582 521 and a decrease in Equipment and tools expenditure of R 582 521 was recorded.

Correction of Salary control account balance. June 2014 subsistence and travel allowances paid in July 2014. An increase in the Salary control account and Employee cost of R 130 989 was recorded.

Correction of journal processed twice in the 2013/2014. The correction of the journal lead to an increase in Consumer debtors of R 105 477 and an increase in Interest income R 26 138, Rental income R 81 194 and a decrease in Service income - Sanitation of R 1 855. Asset additions were posted expense votes. Correction of these additions lead to an increase in Infrastructure assets (R 1 614 585), Building improvements (R 727 157) and Other assets of R 30 458. The repairs and maintenance and Consulting expenditure decreased with R 2 372 200.

Correction of faulty processing in the previous financial year. Correction lead to increase in Sundry payables of R 382 735, an increase in Other debtors of R 199 206, an increase in Rental expense R 382 735, a decrease in VAT provision account of R 24 464 and a decrease in consulting fee expense of R 174 742.

Correction of Indigent subsidy recorded in the Accumulated surplus or deficit account. Free services rendered to indigents was corrected as a deduction against the revenue as it does not meet the recognition criteria of revenue and should therefore not be recognised as revenue. The write-off against Accumulated surplus or deficit was therefore the incorrect accounting treatment. Accumulative surplus or deficit therefore increased with R 10 513 704 while Service revenue decreased with R 10 513 704.

In 2014 the debt impairment was incorrectly recorded inclusive of VAT in the Statement of Financial Performance. The VAT should not form part of the debt impairment and was therefore corrected. Payables - VAT was increased with R 536 425 and debt impairment reduced with R 536 425.

Figures in Rand	2015	2014

48. Prior period errors (continued)

In the previous periods the landfill site rehabliitation provision was calculated by using an incorrect weighting factor. The factor was corrected to be in accordance with the working manual for the assessment of landfill site quantums. The Factor was included at 2.0 instead of 1.1 as prescribed by the guidance. The provision decrease with R 317 840 while the landfill site asset cost dereased with R 233 966 and Accumulated surplus or deficit increased R 83 874 on 1 July 2013. The Restatement of the asset cost lead to a decrease in the depreciation and accumulative depreciation for 2014 of R 11 948.

The correction of the errors results in adjustments as follows:

Statement of financial position 2012/2013	
Increase/(decrease) in Buildings - Cost	78 400
Increase/(decrease) Consumer debtors - Water	337 622
Increase/(decrease) Consumer debtors - Electricity	342 437
Increase/(decrease) in Lease assets - Cost	42 829
Decrease/(increase) in Finance lease liability	(34 152)
(Increase)/decrease in Intangible assets - Accumulative depreciation	331 029
(Increase)/decrease in Other assets - Accumulative depreciation	(19 861)
Increase/(decrease) in Other assets - Cost	(34 703)
Increase/(decrease) in Infra structure - Cost	205 946 713
Increase/(decrease) in Buildings - Cost	162 473
(Increase)/decrease in Other assets - Accumulative depreciation	1 631 286
(Increase)/decrease in Infrastructure assets - Accumulative depreciation	(214 661 465)
(Decrease)/increase in Infrastructure assets - Cost	(233 966)
Decrease/(increase) in Landfill site rehabilitation provision	317 840
Decrease/(increase) in Opening Accumulated Surplus or Deficit	**5 793 509**
Statement of financial position 2013/2014	
Increase/(decrease) Consumer debtors - Water	28 234
Increase/(decrease) Consumer debtors - Electricity	5 280
Increase/(decrease) in Lease assets - Cost	32 442
Increase/(decrease) in Receivables from exchange transactions - Eskom deposits	(7 243)
(Increase)/decrease in Intangible assets - Accumulative depreciation	(70 995)
(Increase)/decrease in Other assets - Accumulative depreciation	(25 216)
Decrease/(increase) in Finance lease liability	(7 941)
Increase/(decrease) in Other assets - Cost	4 291
Increase/(decrease) in Payments in advance	11 879
(Increase)/decrease in Payables from exchange transactions - Accruals	(17 865)
Increase/(decrease) in Inventory	582 521
(Increase)/decrease in Payables from exchange transactions - Salary control account	(130 989)
Increase/(decrease) in Receivables from exchange transactions - Consumer debtors	105 477
(Increase)/decrease in Payables from exchange transactions - Accruals	(382 735)
(Increase)/decrease in Payables from non-exchange transactions - VAT	(24 464)
Increase/(decrease) in Other debtors	199 206
(Increase)/decrease in Infrastructure assets - Accumulative depreciation	(8 480 537)
Increase/(decrease) in Buildings - Cost	727 157
Increase/(decrease) in Other assets - Cost	30 458
Increase/(decrease) in Infra structure - Cost	1 614 585
Increase / (decrease) in Payables from exchange transactions - Unknown deposits	(51 477)
Increase / (decrease) in Consumer Deposits	51 477
Decrease/(increase) in Accumulated Surplus or Deficit	(10 513 704)
(Increase)/decrease in Payables from non-exchange transactions - VAT	536 425
Increase/(decrease) in Infra structure - Accumulative depreciation	(11 948)
	(15 771 786)

Figures in Rand	2015	2014

48. Prior period errors (continued)

Statement of Financial Performance

Decrease/(increase) in Revenue from exchange transactions- Service charges - Water		(28 234)
Decrease/(increase) in Revenue from exchange transactions- Service charges- Electricity		(5 280)
Decrease/(increase) in Revenue from exchange transactions- Service charges - Water		2 457 759
Decrease/(increase) in Revenue from exchange transactions- Service charges- Electricity		2 468
Decrease/(increase) in Revenue from exchange transactions- Service charges- Rates		8 740
Decrease/(increase) in Revenue from exchange transactions- Service charges- Sanitation		3 949 576
Decrease/(increase) in Revenue from exchange transactions- Service charges- Refuse		4 095 161
Increase/ (decrease) in Depreciation		70 995
Increase/ (decrease) in Depreciation		25 216
Increase/ (decrease) in Electricity expense		7 243
Increase/ (decrease) in Network and server expenses		1 695
Increase/ (decrease) in Equipment and tools expense		(582 521)
Increase/ (decrease) in Employee related cost		130 989
Decrease/(increase) in Revenue from exchange transactions- Service charges- Sanitation		1 855
Decrease/(increase) in Rental income		(81 194)
Decrease/(increase) in Interest		(26 138)
Decrease/(increase) in Rental expense		382 735
Increase/ (decrease) in Consulting fees		(350 484)
Increase/ (decrease) in Depreciation		8 480 537
Increase/ (decrease) in Finance cost		45 334
Increase/ (decrease) in Telephone expense		(69 835)
Increase/ (decrease) in Repairs and maintenance		(2 196 458)
Increase / (decrease) in Repairs and Maintenance		(26 816)
Increase / (decrease) in General Expenses		26 816
Increase / (decrease) in Debtors impairment		(536 425)
Increase/ (decrease) in Depreciation		(11 948)
		15 771 786

Notes to the Financial Statements

Figures in Rand	2015	2014

49. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position	
Increase / (decrease) in Receivables from exchange transactions - Payments in advance	500 000
Increase / (decrease) in Receivables from exchange transactions - Other debtors	(735 052)
(Increase) / decrease in Payables from exchange transactions - Unknown deposits	235 052
(Increase) / decrease in Payables from exchange transactions - Retentions	(70 613)
Increase / (decrease) in Property, plant and equipment - Infra structure	70 613
Statement of Financial Performance	
Increase / (decrease) in Grants and subsidies paid	(6 221 283)
Increase / (decrease) in Repairs and Maintenance	584 530
Increase / (decrease) in Contracted services	(4 636 840)
Increase / (decrease) in General expenses	7 953 261
Increase / (decrease) in Administration expenses	14 331
Increase / (decrease) in Actuarial gain/losses	502 496
Increase / (decrease) in Total Remuneration Employees and Councillors	1 799 243
Increase / (decrease) in Fair value Adjustment	(14 475)
(Increase) / decrease in Service Charges	(500)
(Increase) / decrease in Rental of facilities and Equipment	4 800
(Increase) / decrease in Other revenue	726 918
(Increase) / decrease in Other Gains and Continued operation	14 436
(Increase) / decrease in Sundry municipal service income	(287 620)
(Increase) / decrease in Sundry income	(97 205)
(Increase) / decrease in Fees Earned	(88 852)
(Increase) / decrease in Admin fees received	(253 240)

50. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

50. Risk management (continued)

Liquidity risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

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.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

50. Risk management (continued)

Credit risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:
- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

50. Risk management (continued)

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality’s exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

51. Going concern

Management considered the following matters relating to the Going Concern:

(i) The municipality’s Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors’ collection rates and creditors’ payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

52. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2015.

Figures in Rand	2015	2014

53. Unauthorised expenditure

Opening balance	64 555 974	47 809 521
Unauthorised expenditure - current year	27 915 334	16 746 453
	92 471 308	**64 555 974**

The unauthorised expenditure for the year occurred due to budgeted votes being exceeded:

- Budget and Treasury Office - R 8 642 084.34 (2014: R 0)

- Finance and Administration - R 0 (2014: R13 246 545)

- Technical Department - R 11 540 429 (2014: R 0)

- Corporate Service Management - R 6 627 493 (2014: R 3 499 908)

- Council General - R 1 105 327 (2014: R0)

54. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	1 587 068	1 095 610
Fruitless and wasteful expenditure - current year	305 724	491 458
	1 892 792	**1 587 068**

The current year fruitless and wasteful expenditure occurred due to the following incidents:

Interest paid to creditors on late payments - Eskom, Telkom, UFS,Kalkfontien, Oranje Riet and KWJ attorneys - R 60 302 (2014: R91 593).

Fines paid to Dihlabeng Traffic department and Mangaung Metropolitan Municipality - R (2014: R2 300).

De waal nortje ingelyf quantity surveyors and KWJ attorneys for Legal cost incurred - R (2014: R 15 210).

VAT paid to non vendors for SMME projects - R (2014: R 337 282).

Damage to vehicle not insured - R (2014: R45 074).

Debit order payments made to suppliers after the contract has expired - R 95 444 (2014: R 0).

Interest and penalties due to late payments of VAT R 149 978 (2014: R45 074).

All the incidents above will be submitted to council for condonement.

55. Irregular expenditure

Opening balance	88 064 441	67 665 993
Add: Irregular Expenditure - current year	19 825 423	20 398 448
	107 889 864	**88 064 441**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Expenditure contrary to SCM Processes	A report will be adopted by the Executive Committee, condoning the "Irregular Expenditure".	19 825 423

Figures in Rand	2015	2014

56. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Council Subscription	30 341	525 700
Amount paid - current year	(30 341)	(525 700)
	-	-

Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Loss for the year - Electricity	3 477 531	2 263 725
Loss for the year - Water	10 675 551	3 275 838
	14 153 082	**5 539 563**

Electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Percentage Distribution Loss: 19% (2014: 13%)

Electricity distribution losses for the period exceeds the norm of 7% - 10% as per section 125 of the MFMA.

Water Losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

Percentage Distribution Loss: 64% (2014: 18%)

Audit fees

Opening balance	4 408	-
Current year fee	2 806 067	3 291 858
Amount paid - current year	(2 804 658)	(3 287 450)
	5 817	**4 408**

PAYE, SDL and UIF

Opening balance	49 861	(6 349)
Current year subscription / fee	4 883 270	3 736 965
Amount paid - current year	(4 883 270)	(3 680 935)
	49 861	**49 681**

Pension and Medical Aid Deductions

Opening balance	(294 188)	(253 702)
Current year subscription / fee	4 698 820	3 694 645
Amount paid - current year	(5 334 304)	(3 735 131)
	(929 672)	**(294 188)**

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in the June 2015 payroll, as well as the municipality's contributions to these funds.

Notes to the Financial Statements

Figures in Rand	2015	2014

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

VAT

VAT receivable	7 880 408	2 329 121

VAT output payables and VAT input receivables are shown in note 13.

Councillors' arrear consumer accounts

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts. These amounts are deducted from their salary on a monthly basis.

57. Deviation from supply chain management regulations

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

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

Appendix A (Unaudited)
June 2015

Schedule of external loans as at 30 June 2015

	Loan Number	Redeemable	Balance at 30 June 2014 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2015 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Lease liability								
Finance leases			42 092	382 060	80 550	343 602	283 041	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			42 092	**382 060**	**80 550**	**343 602**	**283 041**	**-**