Dannhauser Local Municipality
Annual Financial Statements
for the year ended 30 June 2015

General Information

Legal form of entity	Local municipality
Municipal demarcation code	KZN 254
Grading of local Municipality	Grade 2
Capacity of local authority	Low capacity Municipality
Nature of business and principal activities	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of rates and general services to the community.
Executive Mayor	Cllr Phakathi JP
Speaker	Cllr Ngubeni ZS
Councillors	Cllr Buthelezi AH Cllr Buthelezi MA Cllr Hlongwane NS Cllr Kunene ES Cllr Mabanga TV Cllr Majola NM Cllr Manyathi NGJ Cllr Mdakane HV Cllr Mhlungu NJ Cllr Ndaba VM Cllr Ndlovu SN Cllr Nene PP Cllr Ngidi MA Cllr Ngubeni ZS Cllr Nxumalo LL Cllr Nyembe MR Cllr Phakathi JP Cllr Radebe AN Cllr Shabalala MB Cllr Sibeko MA Cllr Sithole MP
Accounting Officer	Mr. Nkosi WB
Chief Finance Officer (CFO)	Mrs. Mohapi DM
Registered office	8 Church Street Dannhauser 3080
Business address	8 Church Street Dannhauser 3080
Postal address	Private Bag X1011

General Information

	Dannhauser 3080
Bankers	First National Bank - Newcastle
Auditors	Auditor General of South Africa Chartered Accountants (S.A.)
Attorneys	Rafiq Khan and Company

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
EPWP	Expected Public Works Program
FMG	Finance Management Grant
GIS	Geographical Information System
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMP	Information Management Planning
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
SALGA	South Africa Local Government Association

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Companies Act, 71 of 2008, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places 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 external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 88, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2015 and were signed on his behalf by:

Mr. Nkosi WB
Municipal Manager

Audit Committee Report

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

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year, 4 meetings were held.

Name of member	Number of meetings attended
Mr. Mbange B (Chairperson)	4
Mr. Ngwenya S	2
Ms. Ndlela T.C	4
Mr. Ngwenya SES	3
Mr. Dladla B	2

Audit committee responsibility

The 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 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, 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, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- 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 annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

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.

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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

The municipality is engaged in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of rates and general services to the community..

Net surplus of the municipality was R 15 782 581 (2014: surplus R 6 232 673).

2. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated deficits of R 361 097 276.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors.

3. Subsequent events

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

4. Accounting policies

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations of such Statements issued by the Accounting Standards Board.

5. Accounting Officer

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

Name	Nationality
Mr. Nkosi WB	South African

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	31 924 384	20 530 131
Receivables from exchange transactions	4	3 968 578	1 827 068
Receivables from non-exchange transactions	5	5 195 704	2 480 481
VAT receivable	6	1 014 181	844 257
		42 102 847	**25 681 937**
Non-Current Assets			
Investment property	7	14 815 856	10 415 856
Property, plant and equipment	8	334 188 005	331 372 143
Intangible assets	9	101 447	24 934
Heritage assets	10	55 576	55 576
		349 160 884	**341 868 509**
Total Assets		**391 263 731**	**367 550 446**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	4 977 458	9 521 745
Finance lease obligation	12	1 215	-
Unspent conditional grants and receipts	13	19 746 966	2 281 612
Provisions	14	986 816	3 588 638
		25 712 455	**15 391 995**
Non-Current Liabilities			
Employee benefit obligation	15	4 454 000	3 926 000
Total Liabilities		**30 166 455**	**19 317 995**
Net Assets		**361 097 276**	**348 232 451**
Accumulated surplus		361 097 276	348 232 451

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	928 131	852 014
Rental of facilities and equipment	17	165 337	164 231
Interest received	18	1 419 856	1 495 150
Licences and permits	19	1 173 905	1 436 841
Other income	20	6 161 632	8 596 955
Total revenue from exchange transactions		**9 848 861**	**12 545 191**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	13 502 865	11 666 910
Transfer revenue			
Government grants and subsidies	22	100 149 080	97 627 141
Fines	23	714 010	475 423
Total revenue from non-exchange transactions		**114 365 955**	**109 769 474**
Total revenue	24	**124 214 816**	**122 314 665**
Expenditure			
Employee related costs	25	(20 113 950)	(16 866 673)
Remuneration of councillors	26	(5 844 773)	(6 477 788)
Debt impairment	27	(584 237)	-
Depreciation and amortisation	28	(26 010 279)	(25 281 350)
Repairs and maintenance	29	(6 036 509)	(4 916 412)
Grants and expenditure	30	(4 712 155)	(4 663 605)
General expenses	31	(45 150 823)	(57 097 091)
Total expenditure		**(108 452 726)**	**(115 302 919)**
Operating surplus		**15 762 090**	**7 011 746**
Gain (loss) on disposal of assets and liabilities	32	123 811	(530 564)
Fair value adjustments	33	-	127 247
Impairment loss	34	(103 321)	(375 757)
		20 490	**(779 074)**
Surplus for the year		**15 782 580**	**6 232 672**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	243 363 923	243 363 923
Adjustments		
Prior year adjustments (refer to note 41)	98 469 571	98 469 571
Balance at 01 July 2013 as restated*	**341 833 494**	**341 833 494**
Changes in net assets		
Surplus for the year	6 232 673	6 232 673
Surplus on Housing Fund	166 284	166 284
Total changes	6 398 957	6 398 957
Restated* Balance at 01 July 2014	**348 232 451**	**348 232 451**
Changes in net assets		
Deemed cost property plant and equipment	361 804	361 804
PAYE adjustment	(3 562 883)	(3 562 883)
Net income recognised directly in net assets	(3 201 079)	(3 201 079)
Surplus for the year	15 782 581	15 782 581
Total recognised income and expenses for the year	12 581 502	12 581 502
Surplus on Housing Fund	283 323	283 323
Total changes	12 864 825	12 864 825
Balance at 30 June 2015	**361 097 276**	**361 097 276**

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Service charges		16 318 911	14 431 188
Government grants and subsidies		100 149 080	97 627 141
Interest received		1 419 856	1 495 150
Other income		3 725 148	8 761 186
		121 612 995	122 314 665
Payments			
Employee related costs		(21 709 334)	(22 411 987)
Suppliers		(51 610 834)	(88 354 765)
Grants and expenditure		(4 241 397)	(4 663 605)
		(77 561 565)	(115 430 357)
Net cash flows from operating activities	36	**44 051 430**	**6 884 308**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(29 006 355)	(22 644 862)
Proceeds from sale of property, plant and equipment	8	221 061	282 635
Purchase of investment property	7	(4 400 000)	-
Proceeds from sale of investment property	7	-	46 144
Purchase of other intangible assets	9	(89 951)	(28 421)
Proceeds from sale of other intangible assets	9	199	26 502
Impairment on assets useful lives assessment and other		616 654	(48 764)
Net cash flows from investing activities		**(32 658 392)**	**(22 366 766)**
Cash flows from financing activities			
Finance lease receipts and payments		1 215	(6 446)
Net increase/(decrease) in cash and cash equivalents		**11 394 253**	**(15 488 904)**
Cash and cash equivalents at the beginning of the year		20 530 131	36 019 035
Cash and cash equivalents at the end of the year	3	**31 924 384**	**20 530 131**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	(7 105 356)	7 105 356	-	-	-	
Service charges	925 154	(925 154)	-	928 131	**928 131**	48.1
Rental of facilities and equipment	175 694	(175 694)	-	165 337	**165 337**	48.2
Licences and permits	747 067	(747 067)	-	1 173 905	**1 173 905**	48.3
Other income	2 021 758	(2 021 758)	-	6 161 632	**6 161 632**	48.4
Interest received	845 236	(845 236)	-	1 419 856	**1 419 856**	48.5
Total revenue from exchange transactions	**(2 390 447)**	**2 390 447**	**-**	**9 848 861**	**9 848 861**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	11 660 879	(11 660 879)	-	13 502 865	**13 502 865**	48.6
Transfer revenue						
Government grants and subsidies	113 076 000	(113 076 000)	-	100 149 080	**100 149 080**	48.7
Fines	160 534	(160 534)	-	714 010	**714 010**	48.8
Total revenue from non-exchange transactions	**124 897 413**	**(124 897 413)**	**-**	**114 365 955**	**114 365 955**	
Total revenue	**122 506 966**	**(122 506 966)**	**-**	**124 214 816**	**124 214 816**	
Expenditure						
Employee related costs	(21 118 398)	21 118 398	-	(20 113 950)	**(20 113 950)**	48.9
Remuneration of councillors	(4 822 566)	4 822 566	-	(5 844 773)	**(5 844 773)**	48.10
Depreciation and amortisation	(2 000 000)	2 000 000	-	(26 010 279)	**(26 010 279)**	
Debt impairment	-	-	-	(584 237)	**(584 237)**	
Repairs and maintenance	(8 940 234)	8 940 234	-	(6 036 509)	**(6 036 509)**	48.11
Grants and expenditure	(4 960 000)	4 960 000	-	(4 712 155)	**(4 712 155)**	
General expenses	(76 945 845)	118 787 043	**41 841 198**	(45 150 822)	**(86 992 020)**	48.12
Total expenditure	**(118 787 043)**	**160 628 241**	**41 841 198**	**(108 452 725)**	**(150 293 923)**	
Operating surplus	**3 719 923**	**38 121 275**	**41 841 198**	**15 762 091**	**(26 079 107)**	
Gain on disposal of assets and liabilities	-	-	-	123 811	**123 811**	
Loss on biological assets and agricultural produce	-	-	-	(103 321)	**(103 321)**	
	-	**-**	**-**	**20 490**	**20 490**	
Surplus for the year	**3 719 923**	**38 121 275**	**41 841 198**	**15 782 581**	**(26 058 617)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**3 719 923**	**38 121 275**	**41 841 198**	**15 782 581**	**(26 058 617)**	

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	11 660 879	(11 660 879)	-	-		-	13 502 865		13 502 865	DIV/0 %	116 %
Service charges	925 154	(925 154)	-	-		-	928 131		928 131	DIV/0 %	100 %
Investment revenue	845 236	(845 236)	-	-		-	1 419 856		1 419 856	DIV/0 %	168 %
Transfers recognised - operational	113 076 000	(113 076 000)	-	-		-	100 149 080		100 149 080	DIV/0 %	89 %
Other own revenue	(4 000 303)	4 000 303	-	-		-	8 338 696		8 338 696	DIV/0 %	(208)%
Total revenue (excluding capital transfers and contributions)	**122 506 966**	**(122 506 966)**	**-**	**-**		**-**	**124 338 628**		**124 338 628**	**DIV/0 %**	**101 %**
Employee costs	(21 118 398)	21 118 398	-	-	-	-	(20 113 950)	-	(20 113 950)	DIV/0 %	95 %
Remuneration of councillors	(4 822 566)	4 822 566	-	-	-	-	(5 844 773)	-	(5 844 773)	DIV/0 %	121 %
Debt impairment	-	-	-			-	(584 237)	-	(584 237)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(2 000 000)	2 000 000	-			-	(26 010 279)	-	(26 010 279)	DIV/0 %	1 301 %
Transfers and grants	(4 960 000)	4 960 000	-	-	-	-	(4 712 155)	-	(4 712 155)	DIV/0 %	95 %
Other expenditure	(85 886 079)	85 886 079	-	-	-	-	(51 290 652)	-	(51 290 652)	DIV/0 %	60 %
Total expenditure	**(118 787 043)**	**118 787 043**	**-**	**-**	**-**	**-**	**(108 556 046)**	**-**	**(108 556 046)**	**DIV/0 %**	**91 %**
Surplus/(Deficit)	**3 719 923**	**(3 719 923)**	**-**	**-**		**-**	**15 782 582**		**15 782 582**	**DIV/0 %**	**424 %**
Surplus/(Deficit) for the year	**3 719 923**	**(3 719 923)**	**-**	**-**		**-**	**15 782 582**		**15 782 582**	**DIV/0 %**	**424 %**

Capital Expenditure and Funds Sources

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash Flows											
Net cash from (used) operating	-	-	-	-		-	44 051 430		44 051 430	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	-		-	(32 658 392)		(32 658 392)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	-		-	1 215		1 215	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**-**	**-**	**-**	**-**		**-**	**11 394 253**		**11 394 253**	**DIV/0 %**	**DIV/0 %**
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	20 530 131		20 530 131	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	**-**	**-**	**-**	**-**		**-**	**31 924 384**		**(31 924 384)**	**DIV/0 %**	**DIV/0 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2014				
Financial Performance				
Property rates				11 666 910
Service charges				852 014
Investment revenue				1 495 150
Transfers recognised - operational				97 627 141
Other revenue				10 800 697
Total revenue (excluding capital transfers and contributions)				**122 441 912**
Employee costs	-	-	-	(16 866 673)
Remuneration of councillors	-	-	-	(6 477 788)
Depreciation and asset impairment	-	-	-	(25 281 350)
Transfers and grants	-	-	-	(4 663 605)
Other expenditure	-	-	-	(62 919 824)
Total expenditure	**-**	**-**	**-**	**(116 209 240)**
Surplus/(Deficit)				**6 232 672**
Surplus/(Deficit) for the year				**6 232 672**
Captial Expenditure and Funds Sources				
Total capital expenditure				334 000

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash Flows				
Net cash from (used) operating				6 884 308
Net cash from (used) investing				(22 366 766)
Net cash from (used) financing				(6 446)
Net increase/(decrease) in cash and cash equivalents				**(15 488 904)**
Cash and cash equivalents at the beginning of the year				36 019 036
Cash and cash equivalents at year end				**20 530 132**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Companies Act, 71 of 2008.

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

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Receivables

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

The impairment for 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 balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

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

Value in use of cash generating assets:

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

Value in use of non-cash generating assets:

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 Provisions.

Useful lives of property, plant and equipment and other assets

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

Post employment 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. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

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

Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

Allowance for impairment

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

1.3 Investment property

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

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

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

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

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

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

1.3 Investment property (continued)

Fair value

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

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

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

Investment property to be constructed will be treated as property plant and equipment during the construction of the property and once it is complete it will be transferred to investment property.

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

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

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

1.4 Property, plant and equipment

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

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

Property, plant and equipment are initially recognised at cost.

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

Where an asset is acquired at no cost, or for a nominal cost, 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), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, it's cost is measured at the carrying amount of the asset 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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

1.4 Property, plant and equipment (continued)

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

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses with the exception of land and buildings which will be revalued with each new valuation roll.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. Any decrease in the value of a revalued asset is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in net assets related to the revalued land and buildings is transferred directly to accumulated surplus as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset

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

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

Item	**Average useful life**
Land	Indefinite
Buildings	30 - 50 years
Landfill site	15 years
Plant and machinery	
• Specialist vehicles	10 years
Furniture and fixtures	7-10 years
Motor vehicles	5 years
Office equipment	3-5 years
IT equipment	30 years
Infrastructure	30 years
• Buildings	30 - 50 years
• Recreational facilities	30 years
• Security	5 years
• Specialist vehicles	10 years
• Other vehicles	5 years

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

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

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

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

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

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.Such a difference is recognised in surplus or deficit when the item is derecognised.

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

1.5 Site restoration and dismantling cost

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

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.

1.6 Intangible assets

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

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

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

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

Intangible assets are initially recognised at cost.

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

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

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

Subsequent to initial measurement 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.

1.6 Intangible assets (continued)

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

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

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

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

Item	Useful life
Computer software	2 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 arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such a difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.7 Heritage assets

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

Recognition

The municipality recognises a heritage asset as an asset when 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 can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 10 Heritage assets.

Initial measurement

Heritage assets are initially recognised cost.

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

Subsequent measurement

Subsequent to initial measurement heritage assets are carried at cost less any accumulated impairment losses.

Impairment

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

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Accounting Policies

1.7 Heritage assets (continued)

Derecognition

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

1.8 Financial instruments

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from Non-exchange transactions	Financial asset measured at amortised cost
Cash or cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The municipality measures all other financial assets and financial liabilities initially at fair value.

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

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

Financial assets measured at amortised cost:

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

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

Financial liabilities

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

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

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

1.9 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 building elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

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

Operating leases - lessor

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

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

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

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

Operating leases - lessee

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

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, 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.

1.10 Inventories (continued)

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

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

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

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

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

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

1.11 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.12 Impairment of cash-generating assets

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also tests 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 is tested for impairment before the end of the current reporting period.

Value in use

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

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

Discount rate

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

1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

Cash-generating units

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

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

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

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

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

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

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

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

1.13 Impairment of non-cash-generating assets

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

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

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

1.14 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

1.14 Statutory receivables (continued)

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:
  - the definition of an asset is met; and
  - it its probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:
- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

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

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

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

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

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

1.15 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

1.15 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

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

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

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

Termination benefits

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

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

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

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money.

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

1.16 Provisions and contingencies

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

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

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

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.

Accounting Policies

1.16 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating expenditure.

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

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

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

The provision for landfill site is the cost of levelling the land in the next financial year. The landfill site is levelled on an annual basis, the provision is calculated based on the costs incurred in the current financial year in respect to levelling and this had been adjusted for inflation. The amount provided is the best estimate calculated.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

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 municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

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

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

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:
- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

1.17 Discontinued operations

Discontinued operation is a component of the municipality that has been disposed of and:
- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

A component of the municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

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.

Measurement

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

1.18 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

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

1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

1.19 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

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

Measurement

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

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

Taxes (Property rates for municipalities)

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

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

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

Transfers

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

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

1.19 Revenue from non-exchange transactions (continued)

Collection charges and penalties

Collection charges and penalty interest are recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

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

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue, is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exists in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.20 Borrowing costs

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

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

1.21 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:
- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for a specified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:
- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator.
- is provided by the grantor (municipality) which:
  - is an existing asset of the municipality; or
  - is an upgrade to an existing asset of the municipality.

1.21 Service concession arrangements: Grantor (continued)

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:
- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:
- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determine using valuation techniques.

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 45 for detail.

1.23 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:
- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of ''allocation'' otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

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

1.24 Fruitless and wasteful expenditure

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

1.24 Fruitless and wasteful expenditure (continued)

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

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular 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.

1.26 Accumulated surplus

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

1.27 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 37.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.28 Grants in aid

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

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

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

Accounting Policies

1.29 Budget information

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

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

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and reconciliation between the statement of financial performance and the budget for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.30 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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.

1.31 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 adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses 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.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

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

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 1 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

GRAP 100 (revised 2013): Discontinued Operations

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

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

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

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

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 18: Segment Reporting

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

GRAP 105: Transfers of Functions Between Entities Under Common Control

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

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

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

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

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

GRAP 107: Mergers

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

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

GRAP 20: Related Parties

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

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

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

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the reporting entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person’s family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

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

The standard elaborates on the definitions and identification of:

- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence.

The standard sets out the requirements, inter alias, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management.

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

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

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

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

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

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (‘SPE’) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called ‘autopilot’). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties (‘capital providers’) may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE’s activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE’s activities, even though it may own little or none of the SPE’s net assets.

2. New standards and interpretations (continued)

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

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

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

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: ‘When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction’. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that ‘a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest’. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities (‘JCEs’).

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE (‘additional consideration’).

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer’s accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

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

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

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

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

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

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

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

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

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

GRAP 108: Statutory Receivables

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

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

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

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

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

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

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

2. New standards and interpretations (continued)

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

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

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

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

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

The municipality expects to adopt the interpretation for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the interpretation.

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

Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

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

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

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

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

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

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

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

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

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

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

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

GRAP 7 (as revised 2012): Investments in Associates

Paragraph .17 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions.

All amendments to be applied prospectively.

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

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

3. Cash and cash equivalents (continued)

Cash on hand	218	218
Bank balances	10 907 950	724 142
Short-term deposits	10 869 499	19 805 772
Other cash and cash equivalents	10 146 717	-
	31 924 384	**20 530 131**

For the purpose of the statement of financial position and cash flow statement, cash and cash equivalents include Cashiers' Float of R200 and Petty cash on hand (R18), bank balance and investments. In terms of GRAP 1 and MFMA, Investments and Cash and Cash Equivalents must be consolidated.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Figures in Rand	2015	2014

3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
Bank balances	-	-	-	-	-	-
Standard Bank-Current Account - 060032073 - Main Account	711 603	101 236	433 742	712 984	102 617	435 123
First National Bank- Cheque Account - 62369194106	1 789 187	1 764 101	2 926 417	225 916	581 573	(1 913 235)
First National Bank - Call Account - Small town rehabilitation 62392884659	9 969 051	-	-	9 969 051	-	-
	-	-	-	-	-	-
Short term deposits						
First National Bank - Call Account - 62392884659	11 236 049	1 578	23 486 731	-	1 578	23 486 731
Standard Bank - Notice Account - 068483295002	45 912	807 665	771 461	46 040	807 665	771 461
Standard Bank - Call Account - 068480520001	2 444 119	2 356 194	2 276 451	51 092	2 356 194	2 276 451
Standard Bank - Call Account - 26843636894001	1 103 094	2 761 218	3 259 202	1 107 695	2 761 218	3 259 202
Standard Bank - Money Market - 068480520002	44 441	2 190 582	119 667	44 604	2 190 582	119 667
Stanlib Bank - Money Market Account - 52249805	6 147	386 000	368 141	-	386 000	368 141
First National Bank - 30 Days Notice- 74089485434	468 371	446 198	423 577	472 990	446 198	423 577
First National Bank - Call Account - 62084062894	879 976	843 668	799 956	883 451	843 668	799 956
First National Bank - Call Account (MIG) - 62392885855	3 409	3 056	504 203	-	3 056	504 203
First National Bank - Call Account Electrification - 62422725682	3 245 301	30 383	-	239 098	30 383	-
ABSA Bank - 32 Days Notice - 9169857999	2 535 290	2 466 230	2 406 180	2 541 857	2 466 230	2 406 180
ABSA - MAP - Call Account - 9118486422	1 396 890	1 358 904	1 325 789	1 400 509	1 358 904	1 325 789
ABSA Bank 32 Days Notice- 2072034421	718 922	682 710	649 461	722 280	682 710	649 461
ABSA Bank - Call Account - 9121421831	724 283	2 979 718	724 422	737 341	2 979 718	724 422
ABSA Bank Fixed Deposit Account - 2074015596	2 158 596	391 947	378 738	2 180 064	391 947	378 738
ABSA Bank Call Account - 9259916188	406 801	2 054 921	-	408 218	2 054 921	-
First National Bank Call Account 62392885855 MIG Account	8 599	-	-	8 599	-	-
Nedbank :7165020829 MIG Account	24 686	-	-	24 686	-	-
STANLIB : Retention: 522714479	6 147	-	-	6 147	-	-
Total	**39 926 874**	**21 626 309**	**40 854 138**	**21 782 622**	**20 445 162**	**36 015 867**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

4. Receivables from exchange transactions

Other receivables	1 267 497	932 982
Refuse	1 458 549	309 507
Sundry debtors	487 132	584 579
Prepaid expenses	755 400	-
	3 968 578	**1 827 068**

5. Receivables from non exchange transactions

Gross balances		
Rates	15 159 596	11 792 674
Less: Allowance for impairment		
Rates	(9 963 891)	(9 312 193)
Net balance		
Rates	5 195 704	2 480 481
Rates		
Current (0 -30 days)	748 776	904 232
31 - 60 days	603 450	421 418
61 - 90 days	474 468	395 277
91 - 120 days	459 679	384 091
121 - 365 days	12 873 222	9 687 682
Less: Impairment allowance	(9 963 891)	(9 312 193)
	5 195 704	**2 480 507**
Refuse		
Current (0 -30 days)	100 952	81 926
31 - 60 days	84 021	59 888
61 - 90 days	60 988	75 108
91 - 120 days	57 072	37 354
121 - 365 days	3 162 287	2 441 471
Allowance for Impairment	(2 006 771)	(2 386 240)
	1 458 549	**309 507**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Receivables from non exchange transactions (continued)

Summary of receivables by customer classification

	2015	2014
Industrial/ commercial		
Current (0 -30 days)	610 097	625 662
31 - 60 days	464 456	413 743
61 - 90 days	413 415	402 838
91 - 120 days	409 561	370 904
121 - 365 days	14 253 754	11 293 904
	16 151 283	13 107 051
Less: Allowance for impairment	(10 380 961)	(10 905 869)
	5 770 322	**2 201 182**

	2015	2014
National and provincial government		
Current (0 -30 days)	239 631	355 996
31 - 60 days	223 014	67 563
61 - 90 days	122 041	67 547
91 - 120 days	107 190	50 540
121 - 365 days	1 781 757	839 724
	2 473 633	1 381 370
Less: Allowance for impairment	(1 589 701)	(792 564)
	883 932	**588 806**

	2015	2014
Total		
Current (0 -30 days)	849 728	981 658
31 - 60 days	687 470	481 305
61 - 90 days	535 456	470 385
91 - 120 days	516 751	421 445
121 - 365 days	16 035 538	12 133 628
	18 624 943	14 488 421
Less: Allowance for impairment	(11 970 662)	(11 698 433)
	6 654 281	**2 789 988**

	2015	2014
Reconciliation of allowance for impairment		
Balance at beginning of the year	(11 698 433)	(9 148 419)
Contributions to allowance	(272 230)	(2 550 014)
	(11 970 663)	**(11 698 433)**

6. VAT receivable

	2015	2014
VAT	1 014 181	844 257

VAT is accounted for on the payments basis.

All VAT returns were submitted throughout the year.

7. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property - Land and Buildings	14 815 856	-	14 815 856	10 415 856	-	10 415 856

Reconciliation of investment property - 2015

	Opening balance	Additions	Total
Investment property - Land	9 062 756	4 400 000	13 462 756
Investment property - Buildings	1 353 100	-	1 570 200
	10 415 856	**4 400 000**	**14 815 856**

Reconciliation of investment property - 2014

	Opening balance	Additions	Disposals	Total
Investment property	8 708 000	1 754 000	(46 144)	10 415 856

Pledged as security

None of the above investment property have been pledged as security.

Details of property

Investment Property consists of:

	2015	2014
- Land and Buildings	10 081 856	8 708 000
- Disposal	-	(46 144)
- Additions	4 734 000	1 754 000
	14 815 856	**10 415 856**

Other disclosures

	2015	2014
- Rental revenue from investment property	165 337	414 820
- Direct operating expenses - Incurred to generate rental revenue	-	(168 271)
	165 337	**246 549**

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

Notes to the Annual Financial Statements

Figures in Rand

8. 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	1 619 950	(2 672)	1 617 278	1 138 950	-	1 138 950
Buildings	226 570 037	(61 791 959)	164 778 078	224 808 484	(57 120 794)	167 687 690
Plant and machinery	1 816 944	(998 111)	818 833	1 584 310	(803 209)	781 101
Furniture and fixtures	2 544 527	(1 568 146)	976 381	2 259 060	(1 240 569)	1 018 491
Motor vehicles	11 627 884	(5 693 052)	5 934 832	10 945 784	(4 569 595)	6 376 189
IT equipment	1 729 915	(1 302 690)	427 225	1 606 686	(1 060 074)	546 612
Infrastructure	317 036 094	(185 854 861)	131 181 233	320 654 680	(166 831 570)	153 823 110
Infrastructure work in progress	28 453 031	-	28 453 031	-	-	-
Leased assets	1 215	(101)	1 114	-	-	-
Total	**591 399 597**	**(257 211 592)**	**334 188 005**	**562 997 954**	**(231 625 811)**	**331 372 143**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Work in progress	Transfers	Depreciation	Impairment loss	Total
Land	1 138 950	481 000	-	-	-	(2 672)	-	1 617 278
Buildings	167 687 691	1 761 553	-	-	-	(4 671 166)	-	164 778 078
Plant and machinery	781 101	289 952	(4 387)	-	-	(222 690)	(25 143)	818 833
Furniture and fixtures	1 018 490	316 154	(5 686)	-	-	(335 017)	(17 559)	976 382
Motor vehicles	6 376 189	1 109 165	(77 900)	-	-	(1 472 621)	-	5 934 833
IT equipment	546 612	212 872	(9 277)	-	-	(269 481)	(53 501)	427 225
Infrastructure	153 823 111	11 124 247	-	(15 550 982)	808 148	(19 023 292)	-	131 181 232
Infrastructure work in progress	-	13 710 197	-	15 550 982	(808 148)	-	-	28 453 031
Leased assets	-	1 215	-	-	-	(101)	-	1 114
	331 372 144	**29 006 355**	**(97 250)**	**-**	**-**	**(25 997 040)**	**(96 203)**	**334 188 006**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Prior Year Adjustments	Disposals	Reclassifications	Other changes, movements	Depreciation	Impairment loss	Total
Land	1 138 950	-	-	-	-	-	-	-	1 138 950
Buildings	85 526 995	-	82 778 745	3 879 189	-	-	(4 497 238)	-	167 687 691
Plant and machinery	885 828	272 917	(27 653)	(133 422)	54 618	15 259	(244 812)	(41 634)	781 101
Furniture and fixtures	1 113 397	441 564	(49 004)	(164 843)	(79 461)	129 173	(343 272)	(29 064)	1 018 490
Motor vehicles	7 904 799	333 252	(254 354)	(248 568)	40 598	19 328	(1 378 196)	(40 670)	6 376 189
IT equipment	750 012	197 789	(40 905)	(59 883)	(15 285)	1 143	(264 865)	(21 394)	546 612
Infrastructure	137 131 263	21 399 340	13 959 532	-	-	(137 231)	(18 529 794)	-	153 823 110
	234 451 244	**22 644 862**	**96 366 361**	**3 272 473**	**470**	**27 672**	**(25 258 177)**	**(132 762)**	**331 372 143**

Pledged as security

None of the above property, plant and equipment have been pledged as security.

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

9. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	118 373	(16 926)	101 447	30 317	(5 383)	24 934

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	24 935	89 950	(199)	(13 239)	101 447

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	46 187	28 422	(26 502)	(23 172)	24 935

Pledged as security

None of the above intangible assets have been pledged as security.

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

10. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral chain	55 576	-	55 576	55 576	-	55 576

Reconciliation of heritage assets 2015

	Opening balance	Total
Mayoral chain	55 576	55 576

Reconciliation of heritage assets 2014

	Opening balance	Total
Mayoral chain	55 576	55 576

Pledged as security

None of the above heritage assets have been pledged as security.

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. Payables from exchange transactions

Trade payables	996 353	50 569
PAYE, UIF and SDL	-	859 531
Accrued leave pay	1 757 261	1 550 389
Retentions on contracts with creditors	387 422	212 858
Trade accruals	1 679 587	6 846 148
Performance bonus accrual	144 752	-
Salary control	205 395	-
Prodiba	12 083	2 250
Leave Encashment	(205 395)	-
	4 977 458	**9 521 745**

12. Finance lease obligation

Minimum lease payments due		
- within one year	1 215	-
Present value of minimum lease payments due		
- within one year	1 215	-

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 2-4 years and the average effective borrowing rate waslinked to prime interest rate.

Interest rates are linked to prime 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 .

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Emafusini KNPA roads project	112 437	112 437
Expanded Works Program (EPWP)	-	146 428
Financial Management Grant (FMG)	1 120	145
Geographic Information System (GIS) grant	-	66 053
Health Regional Services Council (RSC) cemetery project	58 336	58 336
Information Management Planning (IMP) monitoring system (KZN Province)	58 830	58 830
Integrated National Electrification Programme Grant (INEG)	(2 139 480)	(2 139 480)
Integrated National Electrification Programme Grant (INEG) two	104 704	-
Kwagule bakery-reserves	53 440	53 440
Land use management systems	102 354	102 354
Municipal Infrastructure Grant (MIG) Guarantee	767 743	767 743
Municipal Infrastrucure Grant (MIG) retention	-	174 564
Municipal Systems Improvement Grant (MSIG) grant	794	6 016
Rural infrastructure	344 148	344 148
Small town rehabilitation	20 081 195	314 460
Storm relief	139 966	2 154 759
Tourism support grant	61 379	61 379
	19 746 966	**2 281 612**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited. All grants that do not have movements are roll over
grants.

Notes to the Annual Financial Statements

Figures in Rand

14. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Reversed during the year	Total
Landfill sites	3 588 638	(2 601 822)	986 816

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Landfill sites	3 417 750	170 888	3 588 638

Provision for rehabilitation:

The Municipality engages in waste disposal operations from residential and business areas within the Durnacol area.

The site is unlicensed at present. However, the municipality is in the process of licensing the site as part of a Department of Environmental Affairs initiative.

Dannhauser Local Municipality is required to execute an environmental management program to restore the landfill sites after its useful life. The expected cashflows over the next 15 years entails three major components:

- Pre-closure costs
- Rehabilitation and closure costs
- Post-closure monitoring and maintenance costs (aftercare)

The amount provided is the best estimate calculated. The financial implications of rehabilitating the landfill site were determined by the independent valuator, GIBB (Pty) Ltd.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

15. Employee benefit obligations

Defined benefit plan

Long service awards

A long service award is payable after 10 years of continuous service and every 5 years thereafter to employees. Furthermore a
retirement gift is payable on retirement to employees with service of 10 years or more. The provision is an estimate of the long
service awards based on historical staff turnover, taking into account management's estimate of the likelihood that staff may leave before long service awards become due. No other long service benefits are provided to employees.

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

	2015	2014
Carrying value		
Opening Balance	(3 926 000)	(3 613 000)
Movement for the year	(528 000)	(313 000)
	(4 454 000)	**(3 926 000)**

The Council and its employees contribute to the Natal Joint Municipal Pension Fund’s three funds which provide retirement benefits to such employees.

The funds are subject to the Pension Funds Act 1956, and are self administered, defined benefit plans. Pensions are calculated on the average annual pensionable emoluments during the last years of service. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years. Certain employees of the municipality belong to the Natal Joint Municipal Pension Fund (retirement), Natal Joint Municipal Pension Fund (provident) and Natal Joint Municipal Pension Fund (superannuation) which are administered by the Province.

In 2014 ZAQ finance conducted an actuarial valuation and there is huge decrease in valuation liability, The calculations for previous year were not done in accordance with the relevant actuarial standard (Actuarial Practice Note 301 of the Actuarial Society of South Africa). In addition, the accounting (AFS) disclosures were not provided that are usually provided as part of the required accounting disclosures (for instance the next year’s projected Current Service Cost and Interest Cost were not provided), this is not in accordance with the relevant guidelines in the relevant accounting standard (GRAP 25). The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions. The total expense recognised in the Statement of Financial Performance represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

Changes in the present value of the defined benefit obligation are as follows:

	2015	2014
Opening balance	3 926 000	3 613 000
Movement during the year	528 000	313 000
	4 454 000	**3 926 000**

Figures in Rand	2015	2014

15. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Average Retirement age-female	63	63
Average Retirement age-male	63	63
Discount rates used	Yield curve	7,96 %
Medical cost trend rates		8,05 %
Expected increase in salaries	Equal to CPI	7,33 %
Expected pension increases		8,05 %
Proportion of employees opting for early retirement		1,00 %
Expected increase in healthcare costs		8,05 %
Future changes in maximum state healthcare benefits		50,00 %
Net effective discount rate	Yield curve	0.59 %
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	6.33 %

• It was also assumed that there would be no contribution reduction as a result of divorce / child death. This assumption would result in a prudent provision.

Other assumptions

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

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	470 000	407 000
Effect on defined benefit obligation	5 111 000	3 451 000

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

	2015	2014	2013	2012	2011
Defined benefit obligation	4 454 000	3 926 000	14 842 988	-	-

16. Service charges

Refuse removal	928 131	852 014

17. Rental income

Premises		
Rental of investment properties	165 337	164 231

18. Investment revenue

Interest revenue		
Interest received	1 419 856	1 495 150

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

19. Licences and permits

Business licence	350	-
Commission: Department of Transport	483 470	-
Driver's licence	120 690	265 600
Learner's licences	203 906	208 340
Plan fees	12 961	6 523
Vehicle fees	352 528	956 378
	1 173 905	**1 436 841**

20. Other income

Cemetery fees	19 151	15 165
Discounts and refunds received	6 867	1 291
Donations	336 564	98 477
Drivers license cards	182 622	206 035
Encroachments	1 351	1 351
Housing claims	2 122 612	7 987 286
Insurance claims	313 661	-
Interest on credit balance	386 731	259 081
Local Government Sector Education and Training Authority (LGSETA)	147 196	-
Photocopies	9 108	10 323
Rates clearing certificates	16 141	17 946
Taxi rank fees	17 807	-
Movement on landfill site provision	2 601 821	-
	6 161 632	**8 596 955**

Housing claims includes income that is re-imbursement for the costs incurred in the of building houses on behalf of the Human Settlements Department. Such costs are then paid back to the Municipality.

21. Property rates

Rates received

Assessment rates	13 502 865	11 666 910

Valuations

Commercial	574 652 000	71 879 000
Residential	627 806 000	1 111 312 000
State	284 085 000	229 351 000
	1 486 543 000	**1 412 542 000**

Valuations on land and buildings are performed every four years. The last valuation came into effect on 02 July 2013. Interim valuations are processed as and when municipality become aware of changes in the individual property values due to alterations.

Figures in Rand	2015	2014

22. Government grants and subsidies

Operating grants

Community part grant income	-	40 095
Cyber Cadet Grant	126 000	120 000
Equitable share	59 972 000	52 872 000
Expanded Public Works Program (EPWP)	1 146 429	850 283
Financial Management Grant (FMG)	1 799 025	1 649 855
Geographic Information System (GIS) Grant	66 053	-
Integrated National Electrification Programme Grant (INEG) two	7 895 295	15 375 000
Library provincialisation	535 000	514 000
Municipal Infrastructure Grant (MIG)	20 422 000	19 228 000
Municipal Systems Improvement Programme Grant (MSIG)	939 222	883 984
Municipal Infrastructure Grant (MIG) Retention Grant	2 014 792	-
Small town rehabilitation	5 233 264	6 093 924
	92 775 024	91 373 122
	100 149 080	**97 627 141**

Equitable Share

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

Storm relief

Balance unspent at beginning of year	2 154 759	2 154 759
Current-year receipts	-	-
Conditions met - transferred to revenue: Operating Expenses	(2 014 792)	-
	139 967	**2 154 759**

The grant is intended to purchase material in order to repair damaged houses for beneficiaries in various areas in Dannhauser Municipality.

The beneficiaries' families are headed by the unemployed and pensioners, living under such extreme poverty that they can not build their own houses.

The balance of the grant whose condition(s) have not yet been met has been transferred to liabilities (see note 12 unspent conditional grants and receipts).

Municipal Infrastructure Grant (MIG) Retention

Balance unspent at beginning of year	174 564	174 564
Current-year receipts	-	-
Conditions met - transferred to revenue	(174 564)	-
	-	**174 564**

This grant has been reallocated to retentions (see note13 unspent conditional grants and receipts).

Tourism Support Grant

Balance unspent at beginning of year	61 379	61 379
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	61 379	**61 379**

Figures in Rand	2015	2014

22. Government grants and subsidies (continued)

There were no conditions attached to the grant and the balance was rolled over from prior years.

Geographic Information System (GIS) Grant

Balance unspent at beginning of year	66 053	66 053
Current-year receipts	-	-
Conditions met - transferred to revenue	(66 053)	-
	-	**66 053**

The Geographic Information System (GIS) grant is intended for funding the capacity and equipment of the GIS and the workstation remainder was to be used to update the cadastral and for official tasked with GIS.

The conditions attached to the grant were met and the full R66 053 has been transferred to revenue.

Emafusini KNPA roads project

Balance unspent at beginning of year	112 437	112 437
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	112 437	**112 437**

There were no conditions attached to the grant and the balance was rolled over from prior years.

Rural infrastructure

Balance unspent at beginning of year	344 148	344 148
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	344 148	**344 148**

There were no conditions attached to the grant and the balance was rolled over from prior years.

Land use management systems

Balance unspent at beginning of year	102 354	102 354
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	102 354	**102 354**

There were no conditions attached to the grant and the balance was rolled over from prior years.

Kwagule bakery-reserves

Balance unspent at beginning of year	53 440	53 440

There were no conditions attached to the grant and the balance was rolled over from prior years.

Information Management Planning (IMP) monitoring system (KZN Province)

Balance unspent at beginning of year	58 830	58 830
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	58 830	**58 830**

There were no conditions attached to the grant and the balance was rolled over from prior years.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Government grants and subsidies (continued)

Health Regional Services Council (RSC)-cemetery project

	2015	2014
Balance unspent at beginning of year	58 336	58 336
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	58 336	**58 336**

There were no conditions attached to the grant and the balance was rolled over from prior years.

Municipal Infrastructure Grant (MIG) Guarantee

	2015	2014
Balance unspent at beginning of year	767 743	767 743
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	767 743	**767 743**

There were no conditions attached to the grant and the balance was rolled over from prior years.

Municipal Infrastructure Grant (MIG) Grant

	2015	2014
Balance unspent at beginning of year	-	-
Current-year receipts	20 422 000	19 228 000
Conditions met - transferred to revenue	(20 422 000)	(19 228 000)
	-	**-**

The purpose of the municipal infrastructure grant is to provide basic residential infrastructure for poor households. The grant can be used for new infrastructure, upgrading bulk and connector infrastructure, or the rehabilitation of existing infrastructure.

There were no conditions attached to the grant. As a result, the full amount received was transfered to revenue.

Financial Management Grant

	2015	2014
Balance unspent at beginning of year	145	-
Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 799 025)	(1 649 855)
	1 120	**145**

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Ac (MFMA). The FMG Grant also pays for the cost of the Financial Management Internship Program (e.g salary costs of the Financial Management Interns).

The balance of the grant whose condition(s) have not yet been met has been transferred to liabilities (see note 12 unspent conditional grants and receipts).

Library Provincialisation Grant

	2015	2014
Balance unspent at beginning of year	-	(225 519)
Current-year receipts	535 000	514 000
Conditions met - transferred to revenue	(535 000)	(514 000)
Other transfers	-	225 519
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

22. Government grants and subsidies (continued)

The purpose of the community library services grant, administered by the Department of Co-operativegovernments and traditional affairs, is to help South Africans access knowledge and information, so that their socioeconomic situation can be improved.The grant is allocated to the relevant provincial department and either administered by that department or through a service-level agreement with municipalities.

Municipal Systems Improvement Programme Grant (MSIG)

Balance unspent at beginning of year	6 016	-
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(939 222)	(883 984)
	794	**6 016**

The purpose of this grant is to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation.

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

Electrification Grant

Balance unspent	(2 139 480)	(2 139 480)

The purpose of the Electification Grant is administered by the Department of Co-operative governments and traditional affairs is to assist the municipality to undertake and execute electrification programmes.

There were no conditions attached to the grant and the balance was rolled over from prior years (see note 12 unspent conditional grants and receipts).

Community Participation Grant

Balance unspent at beginning of year	-	40 095
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(40 095)
	-	**-**

There were no conditions attached to the grant and no grant was received in the current year.

Small Town Rehabilitation Grant

Balance unspent at beginning of year	314 460	6 408 383
Current-year receipts	25 000 000	-
Conditions met - transferred to revenue	(5 233 265)	(6 093 923)
	20 081 195	**314 460**

The purpose of the grant is to facilitate the rehabilitation of infrastructure in the small towns.

Conditions still to be met - remain liabilities (see note 13 unspent conditional grants and receipts).

Electrification Programme Grant

Balance unspent at beginning of year	-	15 375 000
Current-year receipts	8 000 000	-
Conditions met - transferred to revenue	(7 895 296)	(15 375 000)

Figures in Rand	2015	2014

22. Government grants and subsidies (continued)

	104 704	**-**

The purpose of the Electrification Program Grant, which is administered by the Department of Co-operative governments and traditional affairs is to assist the municipality in undertaking and executing an electrification programme.

Conditions still to be met - remain liabilities (see note 13 unspent conditional grants and receipts).

Expanded Public Works Program (EPWP)

Balance unspent at beginning of year	146 428	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 146 428)	(853 572)
	-	**146 428**

The purpose of the grant is to incentivise municipalities to expand job creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Program (EPWP) guidelines: road maintenance and the maintenance of buildings; low traffic volume roads and rural roads; basic services infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure); other economic and social infrastructure.

There were no conditions attached to the grant. As a result, the full amount received was transfered to revenue.

Cyber Cadet

Current-year receipts	126 000	120 000
Conditions met - transferred to revenue	(126 000)	(120 000)
	-	**-**

The purpose of the Cyber Cadet grant, which is administered by the Department of Co-operative governments and traditional affairs, is to assist in the cost of appointing the library computer assistant for the Dannhauser Community Library.

There were no conditions attached to the grant. As a result, the full amount received was transfered to revenue.

23. Fines

Library fines	998	2 399
Lost books	475	874
Traffic fines	712 537	472 150
	714 010	**475 423**

24. Revenue

Fines	714 010	475 423
Government grants and subsidies	100 149 080	97 627 141
Interest received - investment	1 419 856	1 495 150
Licences and permits	1 173 905	1 436 841
Other income	6 161 632	8 596 955
Property rates	13 502 865	11 666 910
Rental income	165 337	164 231
Service charges	928 131	852 014
	124 214 816	**122 314 665**

Figures in Rand	2015	2014

24. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Interest received	1 419 856	1 495 150
Licences and permits	1 173 905	1 436 841
Other income	6 161 632	8 596 955
Rental of facilities and equipment	165 337	164 231
Service charges	928 131	852 014
	9 848 861	**12 545 191**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	13 502 865	11 666 910
Transfer revenue		
Fines	714 010	475 423
Government grants and subsidies	100 149 080	97 627 141
	114 365 955	**109 769 474**

Notes to the Annual Financial Statements

Figures in Rand

25. Employee related costs

Employee related costs – salaries and wages	13 982 423	11 574 246
Employee related costs - casual salaries and wages	85 247	99 922
Housing benefits and allowances	50 891	27 336
Medical aid - company contributions	2 457 113	2 203 591
Overtime payments	420 315	610 188
Other employee related costs	216 673	220 073
Performance and other bonuses	1 082 974	794 586
Post-employment benefits	528 000	313 000
Skills Development Levy (SDL)	169 829	192 804
Travel, motor car, accommodation, subsistence and other allowances	1 120 485	830 927
	20 113 950	**16 866 673**

Remuneration of key management personnel	**Annual remuneration**	**Car allowance**	**Performance bonuses**	**Contributions to UIF, Medical and Pension Funds**	**Cellphone allowance**	**Bond allowance**	**Total**
Municipal Manager (Nkosi WB)	523 189	310 184	144 752	60 620	-	-	1 038 745
Chief Finance Officer (Mohapi DM)	462 293	236 330	38 524	177 942	6 000	6 314	927 403
Technical Service Director (Nene MR)	345 026	160 381	29 939	81 052	6 000	6 314	628 712
Corporate Services Director (Narothum S)	358 276	160 421	26 512	109 792	6 000	-	661 001
Community Services Director (Naidoo S)	323 031	179 680	26 919	89 178	6 000	6 314	631 122

Remuneration of Municipal Manager (Nkosi WB)

Annual remuneration	523 189	478 375
Car allowance	310 184	284 516
Performance bonuses	144 752	89 236
Contributions to UIF, Medical and Pension Funds	60 620	51 792
	1 038 745	**903 919**

Figures in Rand	2015	2014

25. Employee related costs (continued)

Remuneration of Chief Finance Officer (Mohapi DM)

Annual remuneration	462 293	435 348
Car allowance	236 330	236 330
Performance bonuses	38 524	45 853
Contributions to UIF, Medical and Pension Funds	177 942	163 180
Cellphone allowance	6 000	6 000
Bond allowance	6 314	-
	927 403	**886 711**

Remuneration of Technical Service Director (Nene MR)

Annual remuneration	345 026	299 852
Car allowance	160 381	172 244
Performance bonuses	29 939	24 327
Contributions to UIF, Medical and Pension Funds	81 052	79 301
Cellphone allowance	6 000	8 000
Bond allowance	6 314	8 478
	628 712	**592 202**

Remuneration of Corporate Services Director (Narothum S)

Annual remuneration	325 571	297 926
Car allowance	160 421	160 422
Performance bonuses	26 512	21 895
Contributions to UIF, Medical and Pension Funds	109 792	100 375
Cellphone allowance	6 000	6 000
Leave pay	32 705	35 325
	661 001	**621 943**

Remuneration of Community Services Director (Naidoo S)

Annual remuneration	323 031	199 519
Car allowance	179 680	110 756
Performance bonuses	26 919	-
Contributions to UIF, Medical and Pension Funds	89 178	52 336
Cellphone allowance	6 000	4 000
Back pay	-	3 824
Bond allowance	6 314	-
	631 122	**370 435**

26. Remuneration of councillors

Executive Mayor	702 294	702 294
Deputy Executive Mayor	322 712	394 906
Speaker	566 729	694 390
Councillors	3 644 896	3 942 693
Executive Committee Members	608 142	743 505
	5 844 773	**6 477 788**

26. Remuneration of councillors (continued)

In-kind benefits

The Mayor and Speaker are full-time. The Mayor is entitled to the use and enjoyment of a vehicle at no cost to her.

The remuneration of employees and section 57 managers is within the upper limits of the SALGA Bargaining Council determinations.

2015 Executive Mayor	Annual remuneration	Travel allowance	Cellphone allowance	Data card allowance	Total
Phakhati JP	677 826	-	20 868	3 600	702 294

2015 Deputy Executive Mayor	Annual Remuneration	Travel allowance	Cellphone allowance	Data card allowance	Total
Ndaba VM	223 683	74 561	20 868	3 600	322 712

2015 Speaker	Annual Remuneration	Travel allowance	Cellphone allowance	Data card allowance	Total
Ngubeni ZS	406 696	135 565	20 868	3 600	566 729

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Remuneration of councillors (continued)

2015 Councillors	Annual remuneration	Travel allowance	Cellphone allowance	Data card allowance	Total
Cllr Buthelezi AH	152 511	50 837	20 868	3 600	227 816
Cllr Buthelezi MA	152 511	50 837	20 868	3 600	227 816
Cllr Hlongwane NS	152 511	50 837	20 868	3 600	227 816
Cllr Kunene ES	152 511	50 837	20 868	3 600	227 816
Cllr Majola MN	152 511	50 837	20 868	3 600	227 816
Cllr Manyathi NGJ	152 511	50 837	20 868	3 600	227 816
Cllr Mdakane HV	152 511	50 837	20 868	3 600	227 816
Cllr Mhlungu NJ	152 511	50 837	20 868	3 600	227 816
Cllr Ndlovu SN	152 511	50 837	20 868	3 600	227 816
Cllr Nene PP	152 511	50 837	20 868	3 600	227 816
Cllr Ngidi MA	203 188	-	20 868	3 600	227 656
Cllr Nxumalo LL	152 511	50 837	20 868	3 600	227 816
Cllr Nyembe MR	152 511	50 837	20 868	3 600	227 816
Cllr Radebe SAN	152 511	50 837	20 868	3 600	227 816
Cllr Shabalala SMB	152 511	50 837	20 868	3 600	227 816
Cllr Sithole MP	152 511	50 837	20 868	3 600	227 816
	2 490 853	**762 555**	**333 888**	**57 600**	**3 644 896**

2015 Executive Committee members	Annual remuneration	Travel allowance	Cellphone allowance	Data card allowance	Total
Mabanga TV	209 702	69 901	20 868	3 600	304 071
Sibeko MA	209 702	69 901	20 868	3 600	304 071
	419 404	**139 802**	**41 736**	**7 200**	**608 142**

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

27. Debt impairment

	2015	2014
Bad debts written off	584 237	-

28. Depreciation and amortisation

	2015	2014
Intangible assets	13 239	23 173
Property, plant and equipment	25 997 040	25 258 177
	26 010 279	**25 281 350**

29. Repairs and maintenance

	2015	2014
Repairs and maintenance	6 036 509	4 916 412

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. Grants and subsidies paid

Other subsidies		
Community library services	126 000	120 000
Community participation grant	-	40 095
Cost of free basic electricity	439 591	683 767
FMG grant	1 736 328	1 568 186
MSIG expense	846 597	883 985
Municipal Zibambele	1 053 463	853 572
Provisional library grant	510 176	514 000
	4 712 155	**4 663 605**

Grant expenditure classified by nature of expense		
Salaries	1 917 332	1 865 441
Free basic	448 833	419 724
Internal audit and audit committee fees	607 119	559 632
Training	706 969	652 905
Ward participation	185 000	139 908
Information systems	610 736	559 632
Protective clothing	131 330	93 272
General expenses	104 836	373 091
	4 712 155	**4 663 605**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

31. General expenses

Advertising	299 936	331 465
Auditors remuneration	1 911 302	1 853 363
Bank charges	44 372	38 890
Burial of destitute	124 547	105 761
By law and acts	-	4 854
Catering	163 340	174 695
Cemetery	-	198 478
Chemicals	23 192	40 780
Cleaning material	108 755	85 150
Computer expenses	18 377	-
Condolatory fund	1 690	3 539
Conferences and seminars	564 816	514 206
Disabled projects	49 709	3 420
Disaster management	791 484	985 958
Electricity	1 008 160	1 500 705
Electrification	15 795 441	17 572 873
Entertainment	130 374	119 028
Facilitation	-	4 000
First aid kit	431	1 930
First ten bursary	262 500	229 000
Gender and culture	463 262	652 967
HIV program	236 764	283 072
Hire of machinery	-	104 032
Insurance	291 567	421 488
Investment mobilisation	23 600	-
Leave pay accrual	412 268	467 279
Legal costs	243 957	501 952
Licence fees	42 287	23 535
Local Economic Development (LED)	2 668 203	393 620
Loose tools	-	1 327
Maps and plans	1 253	196 468
Marketing and corporate	212 264	266 165
Mayoral expenses	657 240	343 155
Membership fees	500 000	43 406
Municipal partnership	123 982	125 520
PMS review & printing	555	250 793
Placement stipend	-	289 474
Polymore counter funding	-	2 625 381
Post retirement benefit	13 759	-
Postage fees	198 924	133 379
Printing and stationery	412 678	303 878
Professional fees	124 176	638 636
Professional services	2 269 522	2 654 511
Project launch costs	7 590	231 819
Promote Intergrated Development Plan (IDP)	496 010	872 018
Promote public participation	395 255	162 755
Provision for bad debts	272 229	2 550 015
Provision for landfill site	-	170 888
Provision for solar	480 000	-
Ramaphosa housing	609 806	7 549 529
Refuse Bins/Bags	146 995	51 540
Rental of land	148 618	117 094
Rental office machine	627 885	657 331
Road marking	33 027	35 097
Safety equipment	9 069	20 497
Sector Development Plans	173 084	2 255
Security and alarms	1 750 443	1 447 446
Seeds and plants	1 808	198 491
Senior citizen	305 175	37 755
Sports	265 528	346 144

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

31. General expenses (continued)

Subsistence and travelling	3 190 051	2 498 642
Telephone	641 241	717 684
Town cleaning	8 313	789
Training direct expense	969 873	699 320
Transport official vehicles	1 273 934	1 492 976
Uniforms	22 947	-
VAT adjustment	(132 823)	(698 721)
Valuation costs - interims	157 730	106 986
Valuation reduction	1 241 424	1 163 338
Ward constituency meeting	738 000	769 600
Ward council committee	939 959	978 041
Water	115 050	34 974
Workplace Skills Plan (WSP)	4 768	299 460
Youth	63 147	95 195
	45 150 823	**57 097 091**

32. Gain(loss) on disposal of assets and liabilities

Property plant and equipment	123 811	(530 564)

33. Fair value adjustments

Investment property (Fair value model)	-	127 247

34. Impairment of assets

Impairments		
Property, plant and equipment	(103 321)	(375 757)

35. Auditors' remuneration

Fees	1 911 302	1 853 363

36. Cash generated from operations

Surplus	15 782 581	6 232 672
Adjustments for:		
Depreciation and amortisation	26 007 607	25 281 350
(Loss) gain on sale of assets and liabilities	(123 811)	530 564
Fair value adjustments	-	(127 247)
Debt impairment	584 237	-
Movements in operating lease assets and accruals	-	(6 664)
Movements in retirement benefit assets and liabilities	528 000	313 000
Movements in provisions	(2 601 821)	170 888
Impairment loss	103 321	375 757
Other non-cash items	(4 038 855)	(4 108 863)
Changes in working capital:		
Receivables from exchange transactions	(182 961)	(1 499 312)
Consumer debtors	(584 237)	(356 588)
Receivables from non-exchange transactions	(4 173 773)	-
Payables from exchange transactions	(4 544 287)	954 429
VAT	(169 925)	255 232
Unspent conditional grants and receipts	17 465 354	(21 130 910)
	44 051 430	**6 884 308**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	154 524 066	28 798 682
Not yet contracted for and authorised by accounting officer		
• Infrastructure	21 232 406	26 405 333

Total capital commitments		
Already contracted for but not provided for	154 524 066	-
Not yet contracted for and authorised by accounting officer	21 232 406	-
	175 756 472	**-**

Authorised operational expenditure

Already contracted for but not provided for		
• Compilation of Annual Financial Statements	380 000	-
• Security services	6 557 568	-
• Short term insurance	264 848	-
	7 202 416	**-**

Total operational commitments		
Already contracted for but not provided for	7 202 416	-

Total commitments

Total commitments		
Authorised capital expenditure	175 756 472	-
Authorised operational expenditure	7 202 416	-
	182 958 888	**-**

This committed expenditure relates to Infrastructure assets and other assets and will be financed by available bank facilities, Small Town rehabilitation grant, retained surpluses, existing cash resources and internally generated funds, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	135 807	-
- in second to fifth year inclusive	160 599	-
	296 406	**-**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of 1 year. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	19 840	-
- in second to fifth year inclusive	12 320	-
	32 160	**-**

Certain of the municipality's property is held to generate rental income. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

38. Risk management

Financial risk management

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

Liquidity risk

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

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

Credit risk

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

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

Financial instrument	2015	2014
Cash and cash equivalents	21 782 840	20 530 132
Receivables from exchange transactions	1 754 629	1 827 068
Receivables from non-exchange transactions	6 654 254	2 480 481

39. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscriptions / fees	500 000	450 000

Material losses through criminal conduct

Management is not aware of any material losses though criminal conduct.

Audit fees

Opening balance	-	977 418
Current year fees	1 460 715	586 978
Amount paid - current year	(1 460 715)	(586 978)
Amount paid - previous years	-	(977 418)
	-	-

PAYE and UIF

Current year fees	3 192 281	1 465 656
Amounts paid - current year	(3 192 281)	(1 465 656)
	-	-

Figures in Rand	2015	2014

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

Pension and medical aid deductions

Current year fees	2 387 049	2 078 716
Amount paid - current year	(2 387 049)	(2 078 716)
	-	-

VAT

VAT receivable	1 014 181	844 257

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

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

Councillors' arrear consumer accounts

No councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

Supply chain management regulations

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

Incident		
Exceptional and urgent cases where it was impracticable to follow the official procurement policy	2 144 195	894 078

40. Fruitless and wasteful expenditure

The accounting officer is not aware of any matter or event that give rise to fruitless and wasteful expendirue incurred during the financial year.

41. Prior period errors

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

Below is a summary of the total effect that the prior period errors had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. Prior period errors (continued)

Statement of Financial Performance for the year ended 30 June 2014	Balance as previously reported	Prior period error	Restated balance
Revenue			
Service charges	852 014	-	852 014
Rental of facilities and equipment	164 231	-	164 231
Interest received - investment	1 495 150	-	1 495 150
Licences and permits (exchange)	1 436 841	-	1 436 841
Other revenue	8 596 955	-	8 596 955
Property rates	11 666 910	-	11 666 910
Government grants and subsidies	97 627 142	-	97 627 142
Fines	475 423	-	475 423
Total revenue	122 314 666	-	122 314 666
Expenditure			
Employee related costs	(16 866 673)	-	(16 866 673)
Remuneration of councillors	(6 477 788)	-	(6 477 788)
Depreciation and amortisation	(25 304 524)	23 174	(25 281 350)
Repairs and maintenance	(4 916 412)	-	(4 916 412)
Grants and subsidies paid	(4 663 605)	-	(4 663 605)
Other expenses	(57 097 091)	-	(57 097 091)
Total expenditure	(115 326 093)	23 174	(115 302 919)
Operating surplus / (deficit)	6 988 572	23 174	7 011 746
Gain/(loss) on disposal of assets nd liabilities	(530 564)	-	(530 564)
Fair value adjustments	127 247	-	127 247
Impairment loss	(375 757)	-	(375 757)
Surplus / (deficit) for the year	(779 074)	23 174	6 232 672

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. Prior period errors (continued)

Statement of Financial Position as at 30 June 2014

	Balance as previously reported	Prior period error	Restated balance
Assets			
Current Assets			
Cash and cash equivalents	20 530 132	-	20 530 132
Receivables from exchange transactions	1 827 068	-	1 827 068
Receivables from non-exchange transactions	2 480 481	-	2 480 481
VAT receivable	844 257	-	844 257
Total current assets	25 681 938	-	25 681 938
Non-current Assets			
Investment property	8 661 856	1 754 000	10 415 856
Property, plant and equipment	234 633 398	96 738 745	331 372 143
Intangible assets	24 934	-	24 934
Heritage assets	55 576	-	55 576
Total non-current assets	243 375 764	98 492 745	341 868 509
Liabilities			
Current Liabilities			
Payables from exchange transactions	9 521 748	-	9 521 748
Unspent conditional grants and receipts	2 281 612	-	2 281 612
Provisions	3 588 638	-	3 588 638
Total current liabilities	15 391 998	-	15 391 998
Non-current Liabilities			
Employee benefit obligation	3 926 000	-	3 926 000
Net Assets			
Accumulated surplus - Opening balance	249 739 704	98 492 745	348 232 449
Total net assets	249 739 704	98 492 745	348 232 449

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. Prior period errors (continued)

Error 1

Property plant and equipment	-	96 738 745
Depreciation	-	(23 174)
Accumulated Surplus	-	(96 715 571)
	-	**-**

1.Correction of prior period error on accumulated depreciation

Error 2

Investment property	-	1 420 000
Accumulated surplus	-	(1 420 000)
	-	**-**

2. Capitalisation of the KwaMdakane Taxi Rank as Investment property received from Amajuba District.

Error 3

Investment property	-	334 000
Accumulated surplus	-	(334 000)
	-	**-**

3.Reclassification journal of the Municipal house as Investment property

42. Related parties

Accounting Officer	Refer to note 24
Key management	Refer to note 24
Executive Mayor	Refer to note 25
Speaker	Refer to note 25
Chief Whip	Refer to note 25
Mayoral Committee	Refer to note 25
Councillors	Refer to note 25

Related party transactions

Purchases from related parties

Dookies Electrical	-	52 690
Veez Micro Enterprises	13 378 523	-

Dookies Electrical is the brother of Mrs. S. Narothum (Manager Corporate Services).

Veez Micro Enterprise & Khanyisa Africa is the nephew of Mrs. S. Narothum (Manager Corporate Services).

43. Irregular expenditure

Opening balance	69 664	17 139 985
Add: Irregular Expenditure - current year	2 074 531	894 078
Less: Amounts condoned	(2 144 195)	(17 964 399)
	-	**69 664**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

44. Operating lease asset (accrual)

Non-current assets	12 320	-
Current assets	19 840	-
	32 160	**-**

45. Comparative figures

No comparative figures have been reclassified.

46. Going concern

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

47. Events after the reporting date

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

Figures in Rand	2015	2014

48. Budget differences

Material differences between budget and actual amounts

48.1 The municipality performed data cleansing exercise and as a result, more debtors were identified and thereafter billed in a process to improve the revenue inflow.

48.2 Less revenue than anticipated was realised due to cancellation and non renewal of two contracts for land which was previously leased out by the municipality. The budget was informed by tarrifs increase and actual revenue received for 2013/14 financial year

48.3 Licences and permits actuals were less than expected due to the reason that drivers and learners classes are no longer offered everyday. The municipality is doing urban roads constructions which forced the municipality to suspended drivers licence testing.

48.4 Budget was informed by 2013/14 actual which has drastically decreased because of housing claims decrease.

48.5 Increase came from Small Town Rehabilitation Grant and Electrification Grant received during the adjustment budget time which was not anticipated at the onset.

48.6 Data cleansing improved the revenue collection in 2014/15

48.7 Conditions for some of the grants still to be met before recognising them as income

48.8 Traffic fines improved in 2014/15 compared to 2013/14 due to additional staff being appointed by the municipality

48.9 Positions budgeted on the organogram were not filled

48.10 The minimal over expenditure was for S & T under councillors allowances due to them attending training for 12 months during financial year

48.11 In compliance with Treasury Circular 72 & 74 which states that 8 % of the budget must be allocated to Maintenance of existing infranstructure

48.12 Some projects are not completed due to late allocation of funds from COGTA

48.13 The supplementary valuation roll market value changed

48.14 Anticipated more VAT receivable because of projects values

48.15 Cash Out Flow increased drastically

48.16 Adjustment was done during Revised Budget

48.17 Projects moved from Work in Progress to Assets register

48.18 Intangible assets acquired at reasonable price

48.19 All creditors were paid in time

48.20 Small town rehabilitation grant projects still undergoing

48.21 Estimation was significantly less than actual

Figures in Rand	2015	2014

49. Contingencies

A contingent liability is being raised relating to a dispute with an employee, Mr Nsibande, who is seeking shortpayment of salary of R 196 931. The dispute is as a result of a demotion that occurred and Mr Nsibande refered the matter to Aribtration where the Bargaining Council ruled in his favour. The municipality has however presented this matter to their lawyers, Roy Ramdaw and Associates Inc, who are currently reviewing the ruling of the Bargaining Council.

The municipality's lawyers, Roy Ramdaw and Associates Inc, have indicated that a further R 50 000 in legal fees will be required to finalise the review of the above mentioned dispute between the municipality and Mr Nsibande.

50. Change in estimate

Property, plant and equipment

The useful life of the landfill sites was reassessed in the current financial year by GIBB Engineering and Architecture. The current condition of the landfill operations is poor, and the landfill is not being operated in accordance with the “Minimum Requirements for Waste Disposal by Landfill”, 2nd Edition (“Minimum Requirements”). By implication provision must therefore be made to rehabilitate the landfill to currently acceptable standards. The effect of this revision has decreased the provision to provide for the imminent rehabilitation to comply with licensing requirements.

The impact on the statement of financial position is the reduction to the provision to a net amount of R 986 816.