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

General Information

Legal form of entity	Local Municipality (MP 306)
Demarcation code	MP 306
Members of Council	.
Executive mayor	Councillor. N.S. Nhlapo
Speaker	Councillor. P.R. Thenjekwayo
	Councillor. T.J. Mahlangu
Councillors	Councillor. M.D. Khanye
	Councillor. M. Tsotetsi
	Councillor. W.S. Davel
	Councillor. A.S. Motloung
	Councillor. D.G. Zwane
	Councillor. N. Zwane
	Councillor. J.R. Hall
	Councillor. M.L. Makhubo
	Councillor. D.S. Sithole
Accounting Officer	Mr. D.V. Ngcobo
Chief Financial Officer (CFO)	Mrs A. Ngema
Grading of local authority	Low capacity municipality
Nature of business and principal activities	Local government institution in the Gert Sibande District, Mpumalanga
Auditors	Auditor-General - South Africa
Bankers	First National Bank of South Africa
Legal advisors	Ramathe M J Attorneys TMN Kgomo & Associates S.O. Radebe Attorneys
Currency	South African Rand
Rounding off	Nearest Rand
Registered office	Cnr of Johnny Mokoena Drive and Themba Shozi Street Balfour Mpumalanga 2410
Postal address	P. O. Box 1005 Balfour Mpumalanga 2410
Telephone number	017 773 0055
Fax number	017 773 0169
E-mail address	dipaleseng@worldonline.co.za
Website	www.dipaleseng.gov.za

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
ASB	Accounting Standards Board
GRAP	Generally Recognised Accounting Practice
D.W.A	Department of Water Affairs
HDF	Housing Development Fund
IAS	International Accounting Standards
EPWP	Expanded Public Works Programme Incentive Grant
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
INEP	Integrated National Electrification Programme
LG SETA	Local Government Sector Education Training Programme

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited 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 audited annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited 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 2015 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 audited annual financial statements set out on pages 4 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014.

31/08/2014.

Accounting Officer
D.V. Ngcobo

Balfour

31 August 2014

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

Net deficit of the municipality was R 9,951,974 (2013: deficit R 40,931,327).

2. Going concern

The audited 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.

3. Subsequent events

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

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report was Mr. D.V. Ngcobo.

5. Corporate governance

General

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

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

The salient features of the municipality's adoption of the Code are outlined below:

Audit and risk committee

During the current financial year the chairperson of the audit committee was Mr. Z. Myeza who is an independent audit committee member.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint members of the Audit Committee. Dipaleseng Local Municipality was able to appoint the independent members as required by the Municipal Finance Management Act 166 section 4 during the year under review.

Internal audit

The municipality has outsourced its internal audit function to Sizwe Ntsaluba Gobodo who succeeded DLM internal audit who was the municipality's previous internal auditors. This is in compliance with the Municipal Finance Management Act, 2003.

6. Bankers

First National Bank Limited will continue to provide financial services to the municipality.

7. Auditors

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

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	19,951,744	17,423,809
Receivables from non-exchange transactions	3	3,850,532	764,463
Receivables from exchange transactions	4	16,634,904	6,395,594
Other receivables	5	111,475	-
Inventories	6	211,520	159,980
		40,760,175	**24,743,846**
Non-Current Assets			
Intangible assets	7	350,074	350,074
Other financial assets	8	216,815	216,815
Investment property	9	9,750,556	9,371,801
Property, plant and equipment	10	288,512,698	296,261,914
		298,830,143	**306,200,604**
Total Assets		**339,590,318**	**330,944,450**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	11	41,544,235	40,645,799
Consumer deposits	12	1,453,125	1,384,063
VAT payable	13	18,075,174	13,161,054
Unspent conditional grants and receipts	14	20,486,317	17,196,643
Provisions	15	100,765	-
Employee benefit obligation	16	214,536	-
		81,874,152	**72,387,559**
Non-Current Liabilities			
Provisions	15	15,438,738	6,974,882
Employee benefit obligation	16	6,986,228	6,338,849
		22,424,966	**13,313,731**
Total Liabilities		**104,299,118**	**85,701,290**
Net Assets		**235,291,200**	**245,243,160**
Accumulated surplus		235,291,200	245,243,160

* See Note 38 & 39

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	66,918,636	67,559,878
Rental of facilities and equipment		212,313	211,320
Licences and permits		3,264,756	2,494,405
Other income	18	2,335,237	5,008,861
Interest revenue	19	10,149,364	14,173,477
Total revenue from exchange transactions		**82,880,306**	**89,447,941**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	16,839,275	13,393,495
Transfer revenue			
Government grants & subsidies	21	63,691,326	57,916,322
Fines		990,830	819,330
Total revenue from non-exchange transactions		**81,521,431**	**72,129,147**
Total revenue	22	**164,401,737**	**161,577,088**
Expenditure			
Personnel	23	(42,622,428)	(33,182,388)
Remuneration of councillors	24	(4,524,718)	(4,161,593)
Depreciation and amortisation	25	(21,124,211)	(28,085,132)
Finance costs	26	(1,318,095)	(1,038,889)
Debt impairment	27	(23,421,035)	(68,059,942)
Repairs and maintenance		(4,993,394)	(3,943,883)
Bulk purchases	29	(36,906,085)	(37,895,533)
Grants and subsidies paid	28	(1,473,536)	(763,124)
General Expenses	31	(38,348,964)	(25,477,267)
Total expenditure		**(174,732,466)**	**(202,607,751)**
Operating deficit		**(10,330,729)**	**(41,030,663)**
Fair value adjustments	9	378,755	99,336
Deficit for the year		**(9,951,974)**	**(40,931,327)**

* See Note 38 & 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	283,312,171	283,312,171
Adjustments		
Correction of prior year errors	(822,483)	(822,483)
Change in accounting policy	3,684,799	3,684,799
Balance at 01 July 2012 as restated*	**286,174,487**	**286,174,487**
Changes in net assets		
Surplus for the year	(40,931,327)	(40,931,327)
Total changes	(40,931,327)	(40,931,327)
Restated* Balance at 01 July 2013	**245,243,174**	**245,243,174**
Changes in net assets		
Surplus for the year	(9,951,974)	(9,951,974)
Total changes	(9,951,974)	(9,951,974)
Balance at 30 June 2014	**235,291,200**	**235,291,200**

* See Note 38 & 39

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		47,848,219	26,887,206
Grants		66,981,000	69,174,000
Interest income		10,149,364	14,173,477
Other receipts		6,038,326	7,920,082
		131,016,909	118,154,765
Payments			
Employee costs		(46,446,321)	(36,519,921)
Suppliers		(67,220,772)	(53,376,548)
Finance costs		(1,318,095)	(1,038,889)
		(114,985,188)	(90,935,358)
Net cash flows from operating activities	33	**16,031,721**	**27,219,407**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(13,503,786)	(14,161,065)
Movements in other financial assets		-	938,465
Net cash flows from investing activities		**(13,503,786)**	**(13,222,600)**
Net increase/(decrease) in cash and cash equivalents		**2,527,935**	**13,996,807**
Cash and cash equivalents at the beginning of the year		17,423,809	3,427,002
Cash and cash equivalents at the end of the year	2	**19,951,744**	**17,423,809**

* See Note 38 & 39

Dipaleseng Local Municipality
(Registration number MP 306)
Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	74,871,300	(10,081,300)	**64,790,000**	66,918,636	**2,128,636**	
Rental of facilities and equipment	174,705	13,295	**188,000**	212,313	**24,313**	
Licences and permits	2,431,333	169,667	**2,601,000**	3,264,756	**663,756**	
Other income	1,741,486	2,934,514	**4,676,000**	2,335,237	**(2,340,763)**	45.1
Interest received - investment	2,592,000	2,873,000	**5,465,000**	10,149,364	**4,684,364**	
Total revenue from exchange transactions	**81,810,824**	**(4,090,824)**	**77,720,000**	**82,880,306**	**5,160,306**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12,552,219	1,495,781	**14,048,000**	16,839,275	**2,791,275**	
Government grants & subsidies	49,499,000	-	**49,499,000**	63,691,326	**14,192,326**	45.2
Transfer revenue						
Fines	283,000	27,000	**310,000**	990,830	**680,830**	
Total revenue from non-exchange transactions	**62,334,219**	**1,522,781**	**63,857,000**	**81,521,431**	**17,664,431**	
Total revenue	**144,145,043**	**(2,568,043)**	**141,577,000**	**164,401,737**	**22,824,737**	
Expenditure						
Personnel	(43,731,977)	(490,023)	**(44,222,000)**	(42,622,428)	**1,599,572**	
Remuneration of councillors	(5,264,785)	2,785	**(5,262,000)**	(4,524,718)	**737,282**	
Depreciation and amortisation	(33,000,000)	(984,000)	**(33,984,000)**	(21,124,211)	**12,859,789**	
Finance costs	-	-	**-**	(1,318,095)	**(1,318,095)**	45.3
Debt impairment	(32,006,216)	(13,993,784)	**(46,000,000)**	(23,421,035)	**22,578,965**	45.4
Repairs and maintenance	(5,344,000)	(2,492,000)	**(7,836,000)**	(4,993,394)	**2,842,606**	
Bulk purchases	(49,800,000)	3,532,000	**(46,268,000)**	(36,906,085)	**9,361,915**	45.5
Grants and subsidies paid	(8,912,000)	6,962,000	**(1,950,000)**	(1,473,536)	**476,464**	
General Expenses	(29,773,000)	(6,466,000)	**(36,239,000)**	(38,348,964)	**(2,109,964)**	
Total expenditure	**(207,831,978)**	**(13,929,022)**	**(221,761,000)**	**(174,732,466)**	**47,028,534**	
Operating deficit	**(63,686,935)**	**(16,497,065)**	**(80,184,000)**	**(10,330,729)**	**69,853,271**	
Fair value adjustments	-	-	**-**	378,755	**378,755**	45.6
Deficit before taxation	**(63,686,935)**	**(16,497,065)**	**(80,184,000)**	**(9,951,974)**	**70,232,026**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(63,686,935)**	**(16,497,065)**	**(80,184,000)**	**(9,951,974)**	**70,232,026**	

Dipaleseng Local Municipality
(Registration number MP 306)
Audited Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	211,520	**211,520**	
Receivables from non-exchange transactions	-	-	**-**	3,850,532	**3,850,532**	
Other receivables	9,000,000	-	**9,000,000**	111,475	**(8,888,525)**	
Consumer debtors	35,605,000	(16,592,000)	**19,013,000**	16,634,904	**(2,378,096)**	
Cash and cash equivalents	(17,707,000)	1,583,000	**(16,124,000)**	19,951,744	**36,075,744**	
	26,898,000	**(15,009,000)**	**11,889,000**	**40,760,175**	**28,871,175**	
Non-Current Assets						
Investment property	-	-	**-**	9,750,556	**9,750,556**	
Property, plant and equipment	382,192,000	(74,339,000)	**307,853,000**	288,512,698	**(19,340,302)**	
Intangible assets	-	-	**-**	350,074	**350,074**	
Other financial assets	-	-	**-**	216,815	**216,815**	
	382,192,000	**(74,339,000)**	**307,853,000**	**298,830,143**	**(9,022,857)**	
Total Assets	**409,090,000**	**(89,348,000)**	**319,742,000**	**339,590,318**	**19,848,318**	
Liabilities						
Current Liabilities						
Trade and other payables from exchange transactions	56,800,000	(23,563,000)	**33,237,000**	41,544,235	**8,307,235**	
VAT payable	-	-	**-**	18,075,174	**18,075,174**	
Consumer deposits	1,400,000	-	**1,400,000**	1,453,125	**53,125**	
Employee benefit obligation	-	-	**-**	214,536	**214,536**	
Unspent conditional grants and receipts	-	-	**-**	20,486,317	**20,486,317**	
Provisions	4,000,000	-	**4,000,000**	100,765	**(3,899,235)**	
	62,200,000	**(23,563,000)**	**38,637,000**	**81,874,152**	**43,237,152**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	6,986,228	**6,986,228**	
Provisions	-	13,239,000	**13,239,000**	15,438,738	**2,199,738**	
	-	**13,239,000**	**13,239,000**	**22,424,966**	**9,185,966**	
Total Liabilities	**62,200,000**	**(10,324,000)**	**51,876,000**	**104,299,118**	**52,423,118**	
Net Assets	**346,890,000**	**(79,024,000)**	**267,866,000**	**235,291,200**	**(32,574,800)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	346,890,000	(79,024,000)	**267,866,000**	235,291,200	**(32,574,800)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	62,568,000	(20,138,000)	**42,430,000**	47,848,219	**5,418,219**	
Grants	70,092,000	26,763,000	**96,855,000**	66,981,000	**(29,874,000)**	
Interest income	72,000	193,000	**265,000**	10,149,364	**9,884,364**	
Other receipts	-	-	**-**	6,038,326	**6,038,326**	
	132,732,000	**6,818,000**	**139,550,000**	**131,016,909**	**(8,533,091)**	
Payments						
Employee costs	(48,996,762)	(487,238)	**(49,484,000)**	(46,446,321)	**3,037,679**	
Suppliers	(91,642,087)	384,238	**(91,257,849)**	(67,220,772)	**24,037,077**	
Finance costs	-	-	**-**	(1,318,095)	**(1,318,095)**	
	(140,638,849)	**(103,000)**	**(140,741,849)**	**(114,985,188)**	**25,756,661**	
Net cash flows from operating activities	**(7,906,849)**	**6,715,000**	**(1,191,849)**	**16,031,721**	**17,223,570**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(20,593,000)	(26,763,000)	**(47,356,000)**	(13,503,786)	**33,852,214**	
Net increase/(decrease) in cash and cash equivalents	(28,499,849)	(20,048,000)	**(48,547,849)**	2,527,935	**51,075,784**	
Cash and cash equivalents at the beginning of the year	15,000,000	2,424,000	**17,424,000**	17,423,809	**(191)**	
Cash and cash equivalents at the end of the year	**(13,499,849)**	**(17,624,000)**	**(31,123,849)**	**19,951,744**	**51,075,593**	

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
2014											
Financial Performance											
Property rates	12,552,219	1,495,781	14,048,000	-		14,048,000	16,839,275		2,791,275	120 %	134 %
Service charges	74,871,300	(10,081,300)	64,790,000	-		64,790,000	66,918,636		2,128,636	103 %	89 %
Investment revenue	2,592,000	2,873,000	5,465,000	-		5,465,000	10,149,364		4,684,364	186 %	392 %
Transfers recognised - operational	49,499,000	-	49,499,000	-		49,499,000	50,053,850		554,850	101 %	101 %
Other own revenue	4,630,524	3,144,476	7,775,000	-		7,775,000	7,181,891		(593,109)	92 %	155 %
Total revenue (excluding capital transfers and contributions)	**144,145,043**	**(2,568,043)**	**141,577,000**	**-**		**141,577,000**	**151,143,016**		**9,566,016**	**107 %**	**105 %**
Employee costs	(43,731,977)	(490,023)	(44,222,000)	-	-	(44,222,000)	(42,622,428)	-	1,599,572	96 %	97 %
Remuneration of councillors	(5,264,785)	2,785	(5,262,000)	-	-	(5,262,000)	(4,524,718)	-	737,282	86 %	86 %
Debt impairment	(33,000,000)	(984,000)	(33,984,000)			(33,984,000)	(23,421,035)	-	10,562,965	69 %	71 %
Depreciation and asset impairment	(32,006,216)	(13,993,784)	(46,000,000)			(46,000,000)	(21,124,211)	-	24,875,789	46 %	66 %
Finance charges	-	-	-	-	-	-	(1,318,095)	1,318,095	(1,318,095)	DIV/0 %	DIV/0 %
Materials and bulk purchases	(49,800,000)	3,532,000	(46,268,000)	-	-	(46,268,000)	(36,906,085)	-	9,361,915	80 %	74 %
Transfers and grants	(8,912,000)	6,962,000	(1,950,000)	-	-	(1,950,000)	(1,473,536)	-	476,464	76 %	17 %
Other expenditure	(35,117,000)	(8,958,000)	(44,075,000)	-	-	(44,075,000)	(43,342,358)	-	732,642	98 %	123 %
Total expenditure	**(207,831,978)**	**(13,929,022)**	**(221,761,000)**	**-**	**-**	**(221,761,000)**	**(174,732,466)**	**1,318,095**	**47,028,534**	**79 %**	**84 %**
Surplus/(Deficit)	**(63,686,935)**	**(16,497,065)**	**(80,184,000)**	**-**		**(80,184,000)**	**(23,589,450)**		**56,594,550**	**29 %**	**37 %**

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
Transfers recognised - capital	58,332,000	15,089,000	73,421,000	-		73,421,000	13,637,476		(59,783,524)	19 %	23 %
Surplus (Deficit) after capital transfers and contributions	**(5,354,935)**	**(1,408,065)**	**(6,763,000)**	**-**		**(6,763,000)**	**(9,951,974)**		**(3,188,974)**	**147 %**	**186 %**
Surplus/(Deficit) for the year	**(5,354,935)**	**(1,408,065)**	**(6,763,000)**	**-**		**(6,763,000)**	**(9,951,974)**		**(3,188,974)**	**147 %**	**186 %**

Accounting Policies

1. Presentation of Audited Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited annual financial statements. Significant judgements include:

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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 15 - Provisions.

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

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

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

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

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

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

1.2 Investment property (continued)

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

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

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.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

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

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

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

1.3 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 is initially measured at cost.

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

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

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Item	**Average useful life**
Land	Indefinite
Buildings	0 - 100 years
Plant and machinery	5 - 15 years
Furniture and fixtures	3 - 10 years
Motor vehicles	5 - 12 years
Office equipment	3 - 7 years
IT equipment	1 - 3 years
Computer software	1 - 3 years
Infrastructure	0 - 100 years
Community	0 - 100 years
Other property, plant and equipment	5 - 12 years
Specialised vehicles	5 - 7 years
Tools and loose gear	3 - 5 years

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

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

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

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

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

1.3 Property, plant and equipment (continued)

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

1.4 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Item	Useful life
Computer software	3 years
Servitudes	Indefinite

1.5 Financial instruments

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

1.5 Financial instruments (continued)

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

Classification

The 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
Consumer debtors	Financial asset measured at amortised cost
Other financial asset (Deposit)	Financial asset measured at fair value

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	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.

Accounting Policies

1.5 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

1.5 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.

Fair value measurement considerations

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

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

1.5 Financial instruments (continued)

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.5 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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.

Accounting Policies

1.5 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.6 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.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.7 Inventories

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

1.7 Inventories (continued)

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

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

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

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

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

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

The cost of inventories is assigned using the 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.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

1.8 Impairment of cash-generating assets (continued)

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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 use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.9 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Accounting Policies

1.9 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

1.10 Provisions and contingencies

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

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

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

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

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

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

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

1.10 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

1.11 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

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

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

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

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

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

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

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a 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.

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

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

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

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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

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.

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.

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Taxes

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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.

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

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

Fines

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

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

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

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.

Services in-kind are recognised as revenue and as assets.

1.13 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.14 Investment income

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

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.16 Comparative figures

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

1.17 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

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

1.20 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Accounting Policies

1.21 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term, highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as current assets. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at face value.

1.22 Commitments

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

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

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

1.23 Budget information

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

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

The audited annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the audited annual financial statements. Refer to note 49.

1.24 Related parties

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

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

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

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

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 Conditional grants and receipts

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.

Figures in Rand	2014	2013

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

2. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Bank balances	19,951,744	17,423,809

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
First National Bank - Cheque - 51590870208	1,927,149	1,084,226	3,154,825	1,927,149	1,084,226	3,154,825
First National Bank - Current Account - 62054655827	632,694	682,682	260,627	632,694	682,682	260,627
First National Bank - Call Account - 62033239783	17,391,901	15,656,901	11,550	17,391,901	15,656,901	11,550
Total	**19,951,744**	**17,423,809**	**3,427,002**	**19,951,744**	**17,423,809**	**3,427,002**

3. Receivables from non-exchange transactions

Fines	1,378,645	613,835
Rates	43,691,391	35,230,583
Less: Allowance for impairment	(41,219,504)	(35,079,955)
	3,850,532	**764,463**

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

Balance at the beginning of the year	(35,079,955)	(23,787,273)
Contributions to allowance	(6,139,549)	(11,292,682)
	(41,219,504)	**(35,079,955)**

As of 30 June 2014, receivables from non-exchange transactions of R 41,219,504 (2013: R 35,079,955) were impaired and provided for.

Included in debt impairment of receivables from non-exchange transactions is impairment amounting to R 40,170,990 (2013: R 34,613,109) for property rates and R 1,048,514 (2013: R 466,846) for fines.

As of 30 June 2014, the net carrying amounts of receivables from non-exchange transactions are R 3,520,401 (2013: R 617,474) for property rates and R 330,131 (2013: R 146,989) for fines.

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

4. Receivables from exchange transactions

Gross balances		
Electricity	21,339,589	25,854,969
Water	51,020,694	44,624,919
Sewerage	52,163,698	44,795,442
Refuse	29,642,118	25,212,694
Deposit	29,758	86,937
Other	73,582,583	59,682,681
	227,778,440	**200,257,642**

Less: Allowance for impairment		
Electricity	(16,903,594)	(20,903,126)
Water	(48,848,325)	(44,046,355)
Sewerage	(49,894,176)	(44,520,902)
Refuse	(28,523,088)	(25,119,498)
Deposit	(28,382)	(81,669)
Other	(66,945,971)	(59,190,498)
	(211,143,536)	**(193,862,048)**

Net balance		
Electricity	4,435,995	4,951,843
Water	2,172,369	578,564
Sewerage	2,269,522	274,540
Refuse	1,119,030	93,196
Deposit	1,376	5,268
Other	6,636,612	492,183
	16,634,904	**6,395,594**

Electricity		
Current (0 -30 days)	2,657,554	666,231
31 - 60 days	767,587	1,067,336
61 - 90 days	1,010,854	665,257
91 - 120 days	-	2,553,019
	4,435,995	**4,951,843**

Water		
Current (0 -30 days)	940,465	213,461
31 - 60 days	658,714	288,115
61 - 90 days	573,190	76,988
	2,172,369	**578,564**

Sewerage		
Current (0 -30 days)	939,223	140,208
31 - 60 days	685,729	134,332
61 - 90 days	644,570	-
	2,269,522	**274,540**

Refuse		
Current (0 -30 days)	387,728	93,196
31 - 60 days	370,238	-
61 - 90 days	361,064	-
	1,119,030	**93,196**

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

Deposit		
Current (0 -30 days)	1,200	5,268
31 - 60 days	176	-
	1,376	**5,268**

Other		
Current (0 -30 days)	2,979,323	492,183
31 - 60 days	2,211,306	-
61 - 90 days	1,445,983	-
	6,636,612	**492,183**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(193,862,048)	(150,954,261)
Contributions to allowance	(17,281,488)	(42,907,787)
	(211,143,536)	**(193,862,048)**

Consumer debtors impaired

As of 30 June 2014, receivables from exchange transactions of R 211,143,536 (2013: R 193,862,048) were impaired and provided for.

5. Other receivables

Trade and other debtors	111,475	-

6. Inventories

Water, chemicals and consumables	211,520	159,980

Inventory pledged as security

There was no inventory pledged as security at year end.

Inventory recognition

Inventory at year end is composed of the value of water in the reservoirs and pipes, electricity meters, tar bags and brush cutters.

Inventory has been valued at cost.

7. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	350,074	-	350,074	350,074	-	350,074

Reconciliation of intangible assets - 2014

	Opening balance	Total
Servitudes	350,074	350,074

Reconciliation of intangible assets - 2013

	Opening balance	Total
Servitudes	350,074	350,074

8. Other financial assets

Eskom deposit	216,815	216,815

Held as Security

An amount of R 216,815 (2013: R216,815) is held as security by Eskom Holding SOL Limited.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no disposals or gains on the financial assets during the year.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

9. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	9,750,556	-	9,750,556	9,371,801	-	9,371,801

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Land and buildings	9,371,801	378,755	9,750,556

Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Land and buildings	9,272,465	99,336	9,371,801

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. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	57,507,633	(47,379,238)	10,128,395	57,507,633	(45,867,833)	11,639,800
Capital work in progress	30,271,336	-	30,271,336	22,879,875	-	22,879,875
Community	57,066,352	(36,078,698)	20,987,654	54,459,696	(34,792,694)	19,667,002
Infrastructure	690,839,231	(470,879,093)	219,960,138	691,363,184	(457,809,055)	233,554,129
Other property, plant and equipment	21,851,310	(14,686,135)	7,165,175	21,434,039	(12,912,931)	8,521,108
Total	**857,535,862**	**(569,023,164)**	**288,512,698**	**847,644,427**	**(551,382,513)**	**296,261,914**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	WIP Capitalised	Derecognised assets	Depreciation	Total
Land and buildings	11,639,800	-	-	-	(1,511,405)	10,128,395
Infrastructure	233,554,129	-	2,910,116	(115,750)	(16,388,357)	219,960,138
Community	19,667,002	-	2,764,410	(4,601)	(1,439,157)	20,987,654
Other property, plant and equipment	8,521,108	437,799	-	(8,440)	(1,785,292)	7,165,175
Capital work in progress	22,879,875	13,065,987	(5,674,526)	-	-	30,271,336
	296,261,914	**13,503,786**	**-**	**(128,791)**	**(21,124,211)**	**288,512,698**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	WIP Capitalised	Derecognised assets	Depreciation	Total
Land and buildings	13,287,660	-	-	-	(1,647,860)	11,639,800
Infrastructure	240,387,953	4,194,326	12,194,161	(901,312)	(22,320,999)	233,554,129
Community	21,497,057	-	-	-	(1,830,055)	19,667,002
Other property, plant and equipment	9,984,734	822,593	-	-	(2,286,219)	8,521,108
Capital work in progress	25,929,890	9,144,146	(12,194,161)	-	-	22,879,875
	311,087,294	**14,161,065**	**-**	**(901,312)**	**(28,085,133)**	**296,261,914**

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 Audited Annual Financial Statements

Figures in Rand	2014	2013

11. Trade and other payables from exchange transactions

Trade payables	35,451,985	35,431,938
Accrued leave pay	5,307,518	4,664,810
Accrued bonus	784,732	549,051
	41,544,235	**40,645,799**

12. Consumer deposits

Deposits held on consumers	1,453,125	1,384,063

13. VAT payable

VAT payable	18,075,174	13,161,054

The Municipality is registered on the cash basis in terms of the Value Added Tax Act.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	20,486,317	16,641,793
Integrated National Electrification Programme	-	350,199
Department of Water Affairs	-	204,651
	20,486,317	**17,196,643**

The nature and extent of government grants recognised in the audited annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

15. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for Landfill site	5,823,001	8,631,072	14,454,073
Provision for Long Service Awards	1,151,881	(66,451)	1,085,430
	6,974,882	**8,564,621**	**15,539,503**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for Landfill site	5,514,205	308,796	5,823,001
Provision for Long Service Awards	974,722	177,159	1,151,881
	6,488,927	**485,955**	**6,974,882**

	2014	2013
Non-current liabilities	15,438,738	6,974,882
Current liabilities	100,765	-
	15,539,503	**6,974,882**

Provision for Long Service awards

The IAS19/GRAP25 Statement sets out the recognition, measurement and disclosure requirements in accounting for “defined benefit” plans. The Statement requires further that actuarial gains and losses and past service cost are to be recognised immediately for long-service employee benefits.

An actuarial valuation was performed by ARCH Consulting.

Provision for Landfill site

Grap 19 statement requires the recognition of a present obligation by an entity arising from past events, the settlement of which is expected to result in an outflow from the Municipality of resources embodying economic benefits (paragraph .16 of GRAP 19). The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice 718 of 3 July 2009, and the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The Landfill site valuation was performed by One Pangaea Financial in association with Gershem holdings.

Figures in Rand	2014	2013

16. Employee benefit obligations

Defined benefit plan

The plan is a post-employment medical benefit plan.

Post-retirement medical aid plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. IAS19/GRAP25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 9.09% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2014. This rate does not reflect any adjustment for taxation.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.29% has been assumed. This is 0.74% in excess of expected CPI inflation over the expected term of the liability, namely 6.79%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.74% which derives from (9.09%-8.29%)/1.00829.

The next contribution increase was assumed to occur with effect from 1 January 2015.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

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

	2014	2013
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7,200,764)	(6,338,849)
Non-current liabilities	(6,986,228)	(6,338,849)
Current liabilities	(214,536)	-
	(7,200,764)	**(6,338,849)**

The fair value of plan assets includes:

Figures in Rand	2014	2013

16. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	397,790	277,570
Interest cost	563,161	433,485
Actuarial (gains) losses	99,227	261,787
Curtailment	(198,264)	(177,732)
	861,914	**795,110**

Assumptions used at the reporting date:

Actual return on plan assets	9 %	9 %
Actual return on reimbursement rights	8 %	8 %

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 9.09% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2014. This rate does not reflect any adjustment for taxation.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.29% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.79%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.74% which derives from ((1+9.09%)/(1+8.29%))-1.

The expected inflation assumption of 6.79% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.69%) and those of nominal bonds (8.98%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+9.09%-0.50%)/1+1.69)/(1+1.69))-1.

The next contribution increase was assumed to occur with effect from 1 January 2015.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed.

17. Service charges

Sale of electricity	36,260,236	38,936,219
Sale of water	13,795,068	13,115,976
Sewerage and sanitation charges	12,155,665	11,193,391
Refuse removal	4,707,667	4,314,292
	66,918,636	**67,559,878**

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

18. Other income

Advertising businesses	1,118	896
Burial fees	116,533	142,916
Clearance certificates	499,714	232,422
Donations	1,096,999	4,194,325
Electricity meter testing	351	88
Escorting vehicles	121,059	132,870
Fines: Library	5,832	40,881
IEC Election revenue	400	-
Insurance pay-out received	126,923	41,040
Penalties	53,900	-
Photocopies	12,317	1,802
Reconnection fees	18,191	20,219
Refuse bins	2,947	3,965
Reservations	-	7,169
Tender documents	47,150	32,676
Tombstone erection	28,163	38,356
Town establishment	201,350	118,602
Trade licence fees	1,899	263
Valuation certificate	391	371
	2,335,237	**5,008,861**

19. Investment revenue

Interest revenue		
Bank	631,902	246,976
Interest charged on financial instruments	9,517,462	13,926,501
	10,149,364	**14,173,477**

20. Property rates

Rates received

Residential	16,839,275	13,393,495

Valuations

Residential	764,216,100	764,216,100
Commercial	385,059,120	385,059,120
State	106,460,300	106,460,300
Municipal	77,384,500	77,384,500
Small holdings and farms	1,525,388,000	1,525,388,000
Religious places	16,794,000	16,794,000
	2,875,302,020	**2,875,302,020**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010.

A general rate of R 0.00615 (2013: R 0.0.00582) is applied to property valuations to determine assessment rates. Rebates of 30% (2013: 30%) are granted to residential and state property owners.

The Municipality was exempt from implementing the new general valuation on 01 July 2013 and it will be implemented on 01 July 2014.

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies

Operating grants		
Equitable share	46,059,000	44,041,000
Financial Management Grant	1,550,000	1,500,000
Municipal System Improvement Grant	890,000	800,000
Expanded Public Works Grant	1,000,000	967,000
Department of Water Affairs	204,651	495,009
LG Seta	-	175,000
Integrated National Electrification Programme	350,199	-
	50,053,850	47,978,009
Capital grants		
Municipal Infrastructure Grant	13,637,476	9,938,313
	13,637,476	9,938,313
	63,691,326	**57,916,322**

Equitable Share

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

All registered indigents receive a monthly subsidy of R 152 (2013: R 110), which is funded from the grant.

Municipal Infrastructure grant

Balance unspent at beginning of year	16,641,793	4,889,105
Current-year receipts	20,593,000	21,691,000
Conditions met - transferred to revenue	(13,637,476)	(9,938,312)
Amount withheld by National Treasury	(3,111,000)	-
	20,486,317	**16,641,793**

Conditions still to be met - remain liabilities (see note 14).

Integrated National Electrification Programme

Balance unspent at beginning of year	350,199	350,199
Conditions met - transferred to revenue	(350,199)	-
	-	**350,199**

Department of water affairs

Balance unspent at beginning of year	204,651	699,660
Conditions met - transferred to revenue	(204,651)	(495,009)
	-	**204,651**

Expanded Public Works Grant

Current-year receipts	1,000,000	967,000
Conditions met - transferred to revenue	(1,000,000)	(967,000)
	-	**-**

Financial Management Grant

Current-year receipts	1,550,000	1,500,000

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(1,550,000)	(1,500,000)
	-	-

Municipal System improvement Grant

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	-

LG Seta

Current-year receipts	-	175,000
Conditions met - transferred to revenue	-	(175,000)
	-	-

Changes in level of government grants

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

22. Revenue

Service charges	66,918,636	67,559,878
Rental of facilities and equipment	212,313	211,320
Licences and permits	3,264,756	2,494,405
Other income	2,335,237	5,008,861
Interest received - investment	10,149,364	14,173,477
Property rates	16,839,275	13,393,495
Government grants & subsidies	63,691,326	57,916,322
Fines	990,830	819,330
	164,401,737	**161,577,088**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	66,918,636	67,559,878
Rental of facilities and equipment	212,313	211,320
Licences and permits	3,264,756	2,494,405
Other income	2,335,237	5,008,861
Interest received - investment	10,149,364	14,173,477
	82,880,306	**89,447,941**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16,839,275	13,393,495
Transfer revenue		
Government grants & subsidies	63,691,326	57,916,322
Fines	990,830	819,330
	81,521,431	**72,129,147**

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

23. Employee related costs

	2014	2013
Acting allowances	259,972	497,150
Basic salaries and wages	24,321,003	20,565,877
Bonus	1,759,212	1,238,302
Group insurance	432,451	397,635
Housing benefits and allowances	61,449	58,786
Industrial council levy	14,938	12,125
Leave pay	1,503,215	736,568
Medical aid - company contributions	1,275,255	1,015,520
Overtime payments	2,540,382	2,480,648
Post-employment benefits - Pension - Defined contribution plan	4,458,346	3,870,130
SDL	296,529	274,379
Standby allowance	175,729	178,959
Transport allowance	743,662	637,115
UIF	247,183	209,481
	38,089,326	**32,172,675**

Remuneration of municipal manager

	2014	2013
Annual Remuneration	960,000	370,571
Travel, motor car, accommodation, subsistence and other allowances	11,993	98,837
	971,993	**469,408**

During the year, Mr. D.V. Ngcobo was the Municipal Manager.

Remuneration of chief finance officer

	2014	2013
Annual Remuneration	738,000	56,500
Travel, motor car, accommodation, subsistence and other allowances	111,430	6,711
	849,430	**63,211**

During the year, Mrs A.M. Ngema was the Chief Financial Officer.

Remuneration of corporate services director

	2014	2013
Annual Remuneration	389,881	-
Travel, motor car, accommodation, subsistence and other allowances	37,464	165,375
	427,345	**165,375**

Mr. T.S. Dhlamini was appointed on the 1st of August 2013 as Corporate Services Director and resigned in February 2014. Mrs. M. Mngomezulu was acting Corporate Services Director at year end.

Remuneration of community services director

	2014	2013
Annual Remuneration	750,000	62,500
Travel, motor car, accommodation, subsistence and other allowances	8,729	165,375
	758,729	**227,875**

During the year, Mr. I.V. Madonsela was the Community Services Director.

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

23. Employee related costs (continued)

Remuneration of technical services director

Annual Remuneration	750,000	-
Travel, motor car, accommodation, subsistence and other allowances	16,920	83,844
	766,920	**83,844**

During the year, Mr. R.B. Ntshanana was the Technical Services Director.

Remuneration of planning and development director

Annual Remuneration	682,548	-
Travel, motor car, accommodation, subsistence and other allowances	76,137	-
	758,685	**-**

During the year, Ms. L.P. Makaya was the Planning and Development Director.

24. Remuneration of councillors

Executive Mayor	661,743	650,010
Chief Whip	213,380	196,275
Speaker	533,639	508,235
Mayoral Committee Members	1,003,112	955,845
Councillors	2,112,844	1,851,228
	4,524,718	**4,161,593**

In-kind benefits

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

25. Depreciation and amortisation

Property, plant and equipment	21,124,211	28,085,132

26. Finance costs

Interest paid	1,318,095	1,038,889

27. Debt impairment

Contributions from receivables from exchange transactions	17,281,486	42,907,789
Contributions from receivables from non-exchange transactions	6,139,549	11,292,682
Interest in arrear accounts written off	-	13,859,471
	23,421,035	**68,059,942**

28. Grants and subsidies paid

Other subsidies

Free basic services	1,473,536	763,124

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

29. Bulk purchases

Electricity	35,552,474	36,203,912
Water	1,353,611	1,691,621
	36,906,085	**37,895,533**

Bulk purchases of water is water supplied by Eskom on behalf of the Municipality to Grootvlei (ward 5) residents.

30. Distribution losses

Electricity

Percentage	**4.55%**
Amount	**R1 616 704**

Water

Percentage	**43%**
Amount	**R3,061,470**

31. General expenses

Advertising	734,840	533,070
Audit fees	4,067,935	1,990,025
Bank charges	323,792	261,640
Chemicals	2,875,630	2,962,678
Cleaning	184,236	177,600
Commission paid	395,199	-
Community development and training	95,715	316,418
Consulting fees and professional fees	8,521,050	6,505,983
Derecognition costs	128,791	901,312
Entertainment	115,159	181,406
Insurance	1,030,323	1,052,575
IT expenses	256,958	226,521
Lease rentals on operating lease	569,273	677,079
Licence fees	1,077,144	747,751
Medical expenses	12,100	2,160
Meter reading costs	67,048	703,104
Motor vehicle expenses	2,349,461	1,969,472
Postage and courier	2,058	20,665
Printing and stationery	4,691	-
Protective clothing	59,987	96,534
Restoration costs	8,631,072	308,796
Security costs	3,398,041	3,458,576
Staff welfare	80,570	13,442
Subscriptions and membership fees	498,080	462,329
Telephone costs	732,820	507,013
Training	581,820	440,640
Travel - local	1,555,171	960,478
	38,348,964	**25,477,267**

32. Auditors' remuneration

Fees	4,067,935	1,990,025

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

33. Cash generated from operations

Deficit	(9,951,974)	(40,931,327)
Adjustments for:		
Depreciation and amortisation	21,124,211	28,085,132
Fair value adjustments	(378,755)	(99,336)
Debt impairment	23,421,035	68,059,942
Movements in retirement benefit assets and liabilities	861,915	795,109
Movements in provisions	8,564,621	485,955
Derecognition costs	128,793	901,312
Changes in working capital:		
Inventories	(51,540)	(133,165)
Receivables from exchange transactions	(33,660,345)	(53,138,233)
Receivables from non-exchange transactions	(3,086,069)	(1,990,505)
Other receivables	(111,475)	885,449
Trade and other payables from exchange transactions	898,448	8,959,904
VAT	4,914,120	4,039,423
Unspent conditional grants and receipts	3,289,674	11,257,679
Consumer deposits	69,062	42,068

34. Commitments

Authorised capital and operating expenditure

Already contracted for but not provided for		
• Property, plant and equipment	27,244,730	9,853,976
• Operating expenditure	10,443,233	-
	37,687,963	**9,853,976**

This committed expenditure relates to property, plant and equipment and operating expenditure contracts and will be financed by grants and own revenue.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	323,460	175,946
- in second to fifth year inclusive	447,705	182,902
	771,165	**358,848**

The total future minimum sublease payment expected to be received under non-cancellable sublease	771,165	358,848

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

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	166,000	166,000

The Municipality has no long term contracts with their lessees. All contracts are on a month to month basis.

35. Contingent liabilities

Deparment of Water Affairs

The municipality is in disagreement with Department of Water Affairs. The Department of Water affairs is not the W.S.P. and it is billing on a monthly basis. The dispute has not yet been settled. The amount due to D.W.A. is R17,151,003. The municipality will attend to this matter in the next financial year.

Additional contingent liabilities

- Aaron Msibi with a possible cost of R150 000
- Balfour Broker with a possible cost of R450 000
- Ilegal taxi rank with a possible cost of R150 000
- Ixia Farming with a possible cost of R350 000
- D.A Dlamini with a possible cost of R90 000

36. Related parties

Relationships	
Councillor. W.S. Davel	MTS Specialists cc t/a Creative Embroidery registration number: 1998/054873/23
Councillor. W.S. Davel	Advidata Trading 386 registration number: 2001/055627/23
Councillor. W.S. Davel	Vendcorp 172 registration number: 1998/000889/23
Councillor. W.S. Davel	Vendcorp 198 registration number: 1998/003284/23

Related party transactions

Purchases from related parties	2014	2013
Master Hoster	700	-
Avidata Trading	5,185	-

Key management information

Executive Mayor	Councillor. N.S. Nhlapo
Councillors	Refer to general information on page 1
Municipal Manager	Mr D.V. Ngcobo

37. Changes in accounting estimate

Property, plant and equipment

The estimated useful lives of assets that reached approximately 2 years in 2013, and that are still in use, and will be for 2 or more years to come, were revised by management in consultation with the service providers to 3 years. There were a total of 1659 components that were adjusted, with expected useful lives ranging from 5 to 100 years. The average expected useful lives for the affected components was calculated at 13.1 years. The depreciation, if no adjustment was made, would have been R 6 668 545, and after the adjustment the actual depreciation was R 4 445 697.

The effect of this revision has reduced the depreciation charges for the current and future periods by R 2,222,849.

38. Changes in accounting policy

The audited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new accounting policy:

Investment property

During the year, the municipality changed its accounting policy with respect to the accounting treatment of investment property. The municipality now accounts for investment property using the fair value model and previously accounted for it using the cost model.

Fines

During the year, the municipality changed its accounting policy with respect to the treatment of traffic fines, in order to comply with the required treatment in iGRAP 1. The municipality now accounts for traffic fines on an accrual basis from the previous cash basis method.

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

Statement of financial position

Figures in Rand	2014	2013
Investment property		
Previously stated	-	5,587,666
Adjustment	-	3,784,135
	-	**9,371,801**
Receivables from non-exchange transactions		
Previously stated	-	617,474
Adjustment	-	146,989
	-	**764,463**

Statement of Financial Performance

Figures in Rand	2014	2013
Fair value adjustment		
Fair value adjustment for the year	-	99,336
Fines		
Previously stated	-	205,495
Adjustment	-	613,835
	-	**819,330**
Debt impairment		
Previously stated	-	67,593,096
Adjustment	-	466,846
	-	**68,059,942**

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

39. Prior period errors

- Property, Plant and Equipment with a carrying amount of R1,563,385 were previously not included in the Municipality's asset register.
- Service charges were incorrectly overstated for water and sewerage which affected Value Added Tax.
- Employee related costs were overstated due to membership fees included. The restatement has resulted in a decrease in employee related costs and an increase in General Expenses.
- The restatement of investment property to fair value has resulted in the restatement of the depreciation expense.
- Debt impairment included incorrect service charges for water and sewerage resulting in the restatement.
- Included in repairs and maintenance was rehabilitation of roads amounting to R585,029 which has been correctly accounted for as capital work in progress.

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

Statement of financial position		
Property, plant and equipment	-	1,563,385
VAT Payable	-	436,737
Trade and other payables	-	(94,267)
Statement of Financial Performance		
Service charges	-	3,119,464
Employee related costs	-	(457,007)
Depreciation and amortisation	-	(592,713)
Debt impairment	-	(3,556,201)
Repairs and maintenance	-	(585,029)
General expenses	-	457,007

40. Comparative figures

Certain comparative figures have been reclassified.

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

41. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 10, and cash and cash equivalents in note 3, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to member, return capital to member, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio.

This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position.

The municipality's strategy is to maintain a debt: equity ratio of between 2 to 1

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

42. Going concern

The audited 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.

43. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2014.

44. Unauthorised expenditure

Opening balance	85,077,900	51,800,864
Add: Unauthorised expenditure - current year	2,265,203	47,136,507
Less: Approved by council or condoned	-	(13,859,471)
Unauthorised expenditure awaiting authorisation	**87,343,103**	**85,077,900**

45. Fruitless and wasteful expenditure

Opening balance	1,554,632	615,222
Add: Fruitless and wasteful expenditure - current year	1,531,909	939,410
Fruitless and wasteful expenditure awaiting condonement	**3,086,541**	**1,554,632**

The fruitless and wasteful expenditure for R 1,318,095 (2013: R 939,410) relates to interest charged on late payments to Eskom and SARS.

Also included is Balji sheriff amounting to R 213,814 which is taxes and interests that could have been avoided.

46. Irregular expenditure

Opening balance	17,403,320	8,583,449
Add: Irregular - supply chain deviations	12,565,697	8,423,759
Add: Irregular - unsolicited bids	1,761,003	396,112
Add: Irregular - restricted suppliers	2,720	-
Irregular expenditure awaiting condonement	**31,732,740**	**17,403,320**

The amount of 2014: R 12,565,697 (2013: R 8,423,759) relates to deviations from SCM procedures. The detailed list is shown below.

The amount of 2014: R 1,761,003 (2013: R396,112) relates to unsolicited bids paid to Lima Liqhawe for debt collection commission.

The amount of R 2,720 relates to a payment made to La Piccasso guest house who is a restricted supplier by the national treasury.

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

46. Irregular expenditure (continued)

Details of irregular expenditure – current year supply chain deviations

Advidata	Business owned by councillor	5,815
Aqua Agri Solutions	Sole supplier on the DataBase	452,498
Arch Actuarial Consulting	The service is only available from a single service provider	13,680
Babcock Equipment	It was a case of emergency, it was impossible to follow the official procurement processes	11,072
Balfour Motors	The Municipality has an agreement with the garage to fill the vehicles on credit	32,387
BBS Limited	It was a case of emergency, it was impossible to follow the official procurement processes	104,964
Bombai electricals	In case of emergency	48,833
Cascade Manufacturers	In case of emergency, no water in Grootvlei	12,919
D.J Motors	The Municipality have an agreement with the garage to fill the vehicles on credit	251,756
Dr Lindeque and Vennote	Only surgeon around	21,280
DRK Consulting	In case of emergency (breakdown at Fortuna)	196,718
El Shadai Printers	Only provider responsible for printing and no tax clearence	112,718
Elegant manor cc	Only available accommodation close to the venue of the meeting, the other accommodation was fully booked.	2,860
Ermelo Inn	Only available accommodation close to the venue of the meeting, other accommodation were fully booked.	5,906
GAI Trading	Adjudication committee did not have at least four senior officials	3,020,501
Heraut Publishers	Heraut is the only local publisher	21,909
Ilca Trading	It was a case of emergency, it was impossible to follow the official procurement processes	3,751
ITNA Trusted value	Sole provider for Munsoft	157,313
JAS Printer Intergration cc	Sole supplier on the DataBase	21,977
JMM Tours	It was a case of emergency, it was impossible to follow the official procurement processes	27,000
Jobvest	It was a case of emergency, it was impossible to follow the official procurement processes	21,849
K E B S	It was a case of emergency, it was impossible to follow the official procurement processes	61,879
Kaydon Services	It was a case of emergency, it was impossible to follow the official procurement processes	59,675
Khosithi Training Institute	It is the only institution that offers the programme on leadership development for councillors that have a qualification below matric	22,485
Komatsu Southern Africa	Sole supplier on the DataBase	3,235
La Rina Guest house	Tax clearence certificate not available	32,960
Master Hoster	Business owned by councillor	700
Matrex Road Product SA	Sole Provider on database	39,872
Media works	Only training provider available for the training	91,044
Mercure Hotel	Short notice, Hotels fully booked	3,589
Metabica conculting	Adjudication committee did not have at least four senior officials	917,968
Mshengo Civil Works	Adjudication committee did not have at least four senior officials	1,381,855
Munsoft	Only service provider, Contractual obligation	303,240
New Vaal Motors	Sole supplier on the DataBase	32,069
Nomadric Electrical and project	Supply cable substation3 was faulty,contractor repaired it	54,780

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

46. Irregular expenditure (continued)

Ntaba Nyoni Timbers	In case of emergency	607,270
Oakdale/Hwiri Trading	Adjudication committee did not have at least four senior officials	703,661
Prompt Services	In case of emergency	124,079
Protea Hotel	Two quotation received, other hotels were fully booked	10,892
Rich Rewards	Contractual obligation	372,552
Softline VIP	Sole supplier	106,598
S'thuthamagade Trading	Two quotations obtained, third quotations was not available	3,000
Super Service Garage	The Municipality have an agreement with the garage to fill the vehicles on credit	112,273
Sure Travel Set	Only available accommodation close to the venue of the meeting, the other accommodation was fully booked.	16,120
Tact Businesss Development	Only training provider	18,237
Takitsi trading	No SCM processes followed	2,718,610
The Institute of Performance management	Sole supplier	161,854
The Postmaster	Sole supplier	16,170
Three cities	Only available accommodation close to the venue of the meeting, the other accommodation was fully booked.	2,320
Truvelo	Sole supplier on the DataBase	11,166
University of Pretoria	Only training provider	19,550
Workshop Electronics	Only workshop for service	8,288
		12,565,697

47. In-kind donations and assistance

There were no donations in kind received by the Municipality

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2014	2013
Current year subscription / fee	466,000	463,015
Amount paid - current year	(466,000)	(463,015)
	-	-

Audit fees

	2014	2013
Opening balance	-	39,185
Current year subscription / fee	4,067,935	1,990,025
Amount paid - current year	(4,067,935)	(2,029,210)
	-	-

PAYE and UIF

	2014	2013
Opening balance	1,508,235	596,076
Current year subscription / fee	5,594,300	3,578,116
Amount paid - current year	(5,123,737)	(2,665,956)
	1,978,798	**1,508,236**

Notes to the Audited Annual Financial Statements

Figures in Rand	2014	2013

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

Pension and Medical Aid Deductions

Current year subscription / fee	6,089,422	3,652,262
Amount paid - current year	(5,569,379)	(3,652,262)
	520,043	**-**

VAT

VAT payable	18,075,174	13,161,054

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

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

Councillors' arrear consumer accounts

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

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor. N.S. Nhlapo	119	-	119
Councillor. M. Tsotetsi	100	488	588
Councillor. D.G. Zwane	467	9,206	9,673
Councillor. M.D. Khanye	206	3,383	3,589
	892	**13,077**	**13,969**

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor. N.S. Nhlapho	91	-	91
Councillor. M.D. Khanye	675	675	1,350
Councillor. P.R. Thenjekwayo	199	-	199
Councillor. D.G. Zwane	1,490	3,468	4,958
	2,455	**4,143**	**6,598**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2014	Highest outstanding amount	Aging (in days)
Councillor. D.G. Zwane	9,673	120
Councillor. M.D. Khanye	3,589	120
Councillor. M. Tsotetsi	588	120
Councillor. N.S. Nhlapo	119	30
	13,969	**390**

30 June 2013	Highest outstanding amount	Aging (in days)
Councillor. D.G. Zwane	4,958	90
Councillor. M.D. Khanye	1,349	90
Councillor. P.R. Thenjekwayo	199	30
Councillor. N.S. Nhlapho	91	30
	6,597	**240**

49. Budget differences

Material differences between budget and actual amounts

The following were material differences between the final budget and the actual amounts.

45.1 The Municipality received less donations from the district than in the previous financial year.

45.2 Increase in Grants was due to increased spending in MIG.

45.3 Finance costs are penalties and interests paid which the Municipality is not allowed to budget for.

45.4 Decrease in debt impairment is due to an improved payment rate.

45.5 Bulk purchases was over budgeted for.

45.6 Fair value adjustments arose from investment property valuation which was not budgeted for.