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

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
Councillors	Councillor. M.D. Khanye (Mayoral Committee Member)
	Councillor. D.S. Sithole (Mayoral Committee Member since April 2015)
	Councillor. M. Tsotetsi (Mayoral Committee Member till March 2015)
	Councillor. T.J. Mahlangu
	Councillor. A.S. Motloung
	Councillor. W.S. Davel
	Councillor. J.R. Hall
	Councillor. D.G. Zwane
	Councillor. N. Zwane
	Councillor. M.L. Makhubo
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 Mangena & Associates Twala 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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The audited annual financial statements set out on pages 4 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015.

Accounting Officer
D.V. Ngcobo

Balfour

31 August 2015

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The 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 surplus of the municipality was R 20 155 843 (2014: deficit R 11 626 647).

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 3 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 committee

During the current financial year the chairperson of the audit committee was Mr. A.C. Keyser who is an independent audit committee member. The Municipality has three independent audit committee members.

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 appointed Mr S.A.Z. Nzuza to head Dipaleseng Local Municipality's internal audit function who succeeded Sizwe Ntsaluba Gobodo 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 2015

Figures in Rand	Note(s)	2015	2014 Restated
Assets			
Current Assets			
Cash and cash equivalents	2	24 852 135	19 951 744
Receivables from non-exchange transactions	3	3 247 763	3 850 532
Receivables from exchange transactions	4	16 936 026	16 634 904
Other receivables	5	-	111 475
Inventories	6	444 212	211 520
		45 480 136	**40 760 175**
Non-Current Assets			
Intangible assets	7	350 074	350 074
Other financial assets	8	216 815	216 815
Investment property	9	3 879 958	3 805 000
Property, plant and equipment	10	311 705 856	277 348 722
		316 152 703	**281 720 611**
Total Assets		**361 632 839**	**322 480 786**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	54 033 100	41 544 235
Consumer deposits	12	1 449 175	1 453 125
VAT payable	13	18 506 450	16 599 431
Unspent conditional grants and receipts	14	21 439 222	20 486 317
Provisions	15	14 126 152	12 117 530
Employee benefit obligation	16	230 412	214 536
		109 784 511	**92 415 174**
Non-Current Liabilities			
Provisions	15	14 908 979	15 438 738
Employee benefit obligation	16	9 142 857	6 986 228
		24 051 836	**22 424 966**
Total Liabilities		**133 836 347**	**114 840 140**
Total Net Assets		**227 796 492**	**207 640 646**
Accumulated surplus		227 796 492	207 640 646

* See Note 38

Statement of Financial Performance for the year ended 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated
Revenue			
Revenue from exchange transactions			
Service charges	17	68 304 496	66 219 954
Rental of facilities and equipment		203 359	212 313
Licences and permits		3 379 282	3 264 756
Other income	18	14 828 187	2 335 237
Investment revenue	19	16 504 732	10 149 364
Total revenue from exchange transactions		**103 220 056**	**82 181 624**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	10 203 275	9 676 271
Transfer revenue			
Government grants & subsidies	21	98 082 868	63 691 326
Fines		925 750	990 830
Total revenue from non-exchange transactions		**109 211 893**	**74 358 427**
Total revenue	22	**212 431 949**	**156 540 051**
Expenditure			
Personnel	23	(46 948 415)	(42 622 428)
Remuneration of councillors	24	(4 922 783)	(4 524 718)
Depreciation and amortisation	25	(21 181 201)	(20 852 253)
Impairment loss	31	(751 942)	(128 791)
Finance costs	26	(932 455)	(1 318 095)
Debt impairment	27	(44 607 754)	(14 121 363)
Repairs and maintenance		(3 698 233)	(4 993 394)
Bulk purchases	28	(37 568 412)	(36 906 085)
Grants and subsidies paid	29	(584 678)	(952 710)
General Expenses	30	(31 155 191)	(39 094 982)
Total expenditure		**(192 351 064)**	**(165 514 819)**
Operating surplus (deficit)		**20 080 885**	**(8 974 768)**
Fair value adjustments	9	74 958	(2 651 879)
Surplus (deficit) for the year		**20 155 843**	**(11 626 647)**

* See Note 38

Statement of Changes in Net Assets for the year ended 30 June 2015

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	245 243 174	245 243 174
Adjustments		
Correction of prior year errors	(25 975 881)	(25 975 881)
Balance at 01 July 2013 as restated*	**219 267 293**	**219 267 293**
Changes in net assets		
Restated deficit for the year	(11 626 647)	(11 626 647)
Total changes	(11 626 647)	(11 626 647)
Restated* Balance at 01 July 2014	**207 640 649**	**207 640 649**
Changes in net assets		
Surplus for the year	20 155 843	20 155 843
Total changes	20 155 843	20 155 843
Balance at 30 June 2015	**227 796 492**	**227 796 492**

* See Note 38

Cash Flow Statement for the year ended 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		35 833 615	47 848 218
Grants		99 035 773	66 981 000
Interest income		16 504 732	10 149 364
Other receipts		18 575 848	6 038 326
		169 949 968	131 016 908
Payments			
Employee costs		(49 078 402)	(46 446 321)
Suppliers		(58 748 442)	(67 220 772)
Finance costs		(932 455)	(1 318 095)
		(108 759 299)	(114 985 188)
Net cash flows from operating activities	33	**61 190 669**	**16 031 720**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(56 290 278)	(13 503 785)
Net increase/(decrease) in cash and cash equivalents		**4 900 391**	**2 527 935**
Cash and cash equivalents at the beginning of the year		19 951 744	17 423 809
Cash and cash equivalents at the end of the year	2	**24 852 135**	**19 951 744**

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	69 198 000	1 115 000	**70 313 000**	68 304 496	**(2 008 504)**	
Rental of facilities and equipment	221 000	(18 000)	**203 000**	203 359	**359**	
Licences and permits	2 762 000	411 000	**3 173 000**	3 379 282	**206 282**	
Other income	3 114 000	(1 412 000)	**1 702 000**	14 828 187	**13 126 187**	45.1
Investment revenue	5 831 000	10 369 000	**16 200 000**	16 504 732	**304 732**	
Total revenue from exchange transactions	**81 126 000**	**10 465 000**	**91 591 000**	**103 220 056**	**11 629 056**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	14 919 000	(5 655 000)	**9 264 000**	10 203 275	**939 275**	
Government grants & subsidies	52 787 000	2 200 000	**54 987 000**	98 082 868	**43 095 868**	45.2
Transfer revenue						
Fines	234 000	778 000	**1 012 000**	925 750	**(86 250)**	
Total revenue from non-exchange transactions	**67 940 000**	**(2 677 000)**	**65 263 000**	**109 211 893**	**43 948 893**	
Total revenue	**149 066 000**	**7 788 000**	**156 854 000**	**212 431 949**	**55 577 949**	
Expenditure						
Personnel	(48 010 000)	852 000	**(47 158 000)**	(46 948 415)	**209 585**	
Remuneration of councillors	(5 527 000)	(41 000)	**(5 568 000)**	(4 922 783)	**645 217**	
Depreciation and amortisation	(36 091 000)	-	**(36 091 000)**	(21 181 201)	**14 909 799**	
Impairment loss	-	-	**-**	(751 942)	**(751 942)**	
Finance costs	-	-	**-**	(932 455)	**(932 455)**	45.3
Debt impairment	(22 654 000)	(13 155 000)	**(35 809 000)**	(44 607 754)	**(8 798 754)**	45.4
Repairs and maintenance	(8 322 000)	-	**(8 322 000)**	(3 698 233)	**4 623 767**	
Bulk purchases	(44 560 000)	1 500 000	**(43 060 000)**	(37 568 412)	**5 491 588**	45.5
Grants and subsidies paid	(1 631 541)	1 541	**(1 630 000)**	(584 678)	**1 045 322**	
General Expenses	(27 316 459)	(2 347 541)	**(29 664 000)**	(31 155 191)	**(1 491 191)**	
Total expenditure	**(194 112 000)**	**(13 190 000)**	**(207 302 000)**	**(192 351 064)**	**14 950 936**	
Operating surplus	**(45 046 000)**	**(5 402 000)**	**(50 448 000)**	**20 080 885**	**70 528 885**	
Fair value adjustments	-	-	**-**	74 958	**74 958**	45.6
Surplus before taxation	**(45 046 000)**	**(5 402 000)**	**(50 448 000)**	**20 155 843**	**70 603 843**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(45 046 000)**	**(5 402 000)**	**(50 448 000)**	**20 155 843**	**70 603 843**	

Dipaleseng Local Municipality
(Registration number MP 306)
Audited Annual Financial Statements for the year ended 30 June 2015

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	160 000	51 000	**211 000**	444 212	**233 212**	
Receivables from non-exchange transactions	-	-	**-**	3 247 763	**3 247 763**	
Receivables from exchange transactions	8 346 000	6 000 000	**14 346 000**	16 936 026	**2 590 026**	
Cash and cash equivalents	(16 854 000)	30 600 000	**13 746 000**	24 852 135	**11 106 135**	
	(8 348 000)	**36 651 000**	**28 303 000**	**45 480 136**	**17 177 136**	
Non-Current Assets						
Investment property	5 306 000	3 500 000	**8 806 000**	3 879 958	**(4 926 042)**	
Property, plant and equipment	274 665 000	14 335 000	**289 000 000**	311 705 856	**22 705 856**	
Intangible assets	350 000	-	**350 000**	350 074	**74**	
Other financial assets	217 000	-	**217 000**	216 815	**(185)**	
	280 538 000	**17 835 000**	**298 373 000**	**316 152 703**	**17 779 703**	
Total Assets	**272 190 000**	**54 486 000**	**326 676 000**	**361 632 839**	**34 956 839**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	13 850 000	25 149 000	**38 999 000**	54 033 099	**15 034 099**	
VAT payable	13 598 000	5 000 000	**18 598 000**	18 506 450	**(91 550)**	
Consumer deposits	1 487 000	100 000	**1 587 000**	1 449 175	**(137 825)**	
Employee benefit obligation	-	-	**-**	230 412	**230 412**	
Unspent conditional grants and receipts	21 000 000	(8 000 000)	**13 000 000**	21 439 222	**8 439 222**	
Provisions	4 248 000	(4 148 000)	**100 000**	14 126 152	**14 026 152**	
	54 183 000	**18 101 000**	**72 284 000**	**109 784 510**	**37 500 510**	
Non-Current Liabilities						
Employee benefit obligation	6 732 000	400 000	**7 132 000**	9 142 857	**2 010 857**	
Provisions	7 475 000	9 000 000	**16 475 000**	14 908 979	**(1 566 021)**	
	14 207 000	**9 400 000**	**23 607 000**	**24 051 836**	**444 836**	
Total Liabilities	**68 390 000**	**27 501 000**	**95 891 000**	**133 836 346**	**37 945 346**	
Total Net Assets	**203 800 000**	**26 985 000**	**230 785 000**	**227 796 493**	**(2 988 507)**	
Total Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	203 800 000	26 985 000	**230 785 000**	227 796 493	**(2 988 507)**	

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	67 587 000	(14 729 000)	**52 858 000**	35 833 615	**(17 024 385)**	
Grants	131 882 000	22 100 000	**153 982 000**	99 035 773	**(54 946 227)**	
Interest income	309 000	191 000	**500 000**	16 504 732	**16 004 732**	
Other receipts	-	-	**-**	18 575 848	**18 575 848**	
	199 778 000	**7 562 000**	**207 340 000**	**169 949 968**	**(37 390 032)**	
Payments						
Employee costs	(54 014 000)	(1 047 000)	**(55 061 000)**	(49 078 402)	**5 982 598**	
Suppliers	(80 942 000)	(112 000)	**(81 054 000)**	(58 748 442)	**22 305 558**	
Finance costs	-	-	**-**	(932 455)	**(932 455)**	
	(134 956 000)	**(1 159 000)**	**(136 115 000)**	**(108 759 299)**	**27 355 701**	
Net cash flows from operating activities	**64 822 000**	**6 403 000**	**71 225 000**	**61 190 669**	**(10 034 331)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(79 095 000)	(22 300 000)	**(101 395 000)**	(56 290 278)	**45 104 722**	
Net increase/(decrease) in cash and cash equivalents	(14 273 000)	(15 897 000)	**(30 170 000)**	4 900 391	**35 070 391**	
Cash and cash equivalents at the beginning of the year	(23 581 000)	24 165 000	**584 000**	19 951 744	**19 367 744**	
Cash and cash equivalents at the end of the year	**(37 854 000)**	**8 268 000**	**(29 586 000)**	**24 852 135**	**54 438 135**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	14 919 000	(5 655 000)	9 264 000	-		9 264 000	10 203 275		939 275	110 %	68 %
Service charges	69 198 000	1 115 000	70 313 000	-		70 313 000	68 304 496		(2 008 504)	97 %	99 %
Investment revenue	5 831 000	10 369 000	16 200 000	-		16 200 000	16 504 732		304 732	102 %	283 %
Government grants & subsidies - operational	52 787 000	2 200 000	54 987 000	-		54 987 000	54 967 578		(19 422)	100 %	104 %
Other own revenue	6 331 000	(241 000)	6 090 000	-		6 090 000	19 411 536		13 321 536	319 %	307 %
Total revenue (excluding capital grants and subsidies)	**149 066 000**	**7 788 000**	**156 854 000**	**-**		**156 854 000**	**169 391 617**		**12 537 617**	**108 %**	**114 %**
Employee costs	(48 010 000)	852 000	(47 158 000)	-	-	(47 158 000)	(46 948 415)	-	209 585	100 %	98 %
Remuneration of councillors	(5 527 000)	(41 000)	(5 568 000)	-	-	(5 568 000)	(4 922 783)	-	645 217	88 %	89 %
Debt impairment	(22 654 000)	(13 155 000)	(35 809 000)			(35 809 000)	(44 607 754)	(8 553 692)	(8 798 754)	125 %	197 %
Depreciation and amortisation	(36 091 000)	-	(36 091 000)			(36 091 000)	(21 933 143)	-	14 157 857	61 %	61 %
Finance charges	-	-	-	-	-	-	(932 455)	(932 455)	(932 455)	DIV/0 %	DIV/0 %
Bulk purchases	(44 560 000)	1 500 000	(43 060 000)	-	-	(43 060 000)	(37 568 412)	-	5 491 588	87 %	84 %
Transfers and grants	(1 631 541)	1 541	(1 630 000)	-	-	(1 630 000)	(584 678)	-	1 045 322	36 %	36 %
Other expenditure	(35 638 459)	(2 347 541)	(37 986 000)	-	-	(37 986 000)	(34 853 424)	-	3 132 576	92 %	98 %
Total expenditure	**(194 112 000)**	**(13 190 000)**	**(207 302 000)**	**-**	**-**	**(207 302 000)**	**(192 351 064)**	**(9 486 147)**	**14 950 936**	**93 %**	**99 %**
Surplus/(Deficit)	**(45 046 000)**	**(5 402 000)**	**(50 448 000)**	**-**		**(50 448 000)**	**(22 959 447)**		**27 488 553**	**46 %**	**51 %**

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
Government grants & subsidies - capital	79 095 000	19 900 000	98 995 000	-		98 995 000	43 115 290		(55 879 710)	44 %	55 %
Surplus (Deficit) after capital grants and subsidies	**34 049 000**	**14 498 000**	**48 547 000**	**-**		**48 547 000**	**20 155 843**		**(28 391 157)**	**42 %**	**59 %**
Surplus/(Deficit) for the year	**34 049 000**	**14 498 000**	**48 547 000**	**-**		**48 547 000**	**20 155 843**		**(28 391 157)**	**42 %**	**59 %**

Accounting Policies for the year ended 30 June 2015

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 are 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 writing down stock to the lower of cost or net realisable value is made. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

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 for the year ended 30 June 2015

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 impairment testing 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.

Accounting Policies for the year ended 30 June 2015

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 values, the useful life and depreciation methods of each assets are reviewed at least at the end `of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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.

Accounting Policies for the year ended 30 June 2015

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, other	3 years
Servitudes	Indefinite

Accounting Policies for the year ended 30 June 2015

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

Class	**Category**
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Other financial asset (Deposit)	Financial asset measured at fair value

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Accounting Policies for the year ended 30 June 2015

1.5 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a 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.

Accounting Policies for the year ended 30 June 2015

1.5 Financial instruments (continued)

Reclassification

The entity 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 entity 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 entity 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.

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.

Accounting Policies for the year ended 30 June 2015

1.5 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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 for the year ended 30 June 2015

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

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

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

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

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

1.8 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of a municipality after deducting all of its liabilities.

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.

Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Accounting Policies for the year ended 30 June 2015

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.

Accounting Policies for the year ended 30 June 2015

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 for the year ended 30 June 2015

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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

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 for the year ended 30 June 2015

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.

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 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.

Accounting Policies for the year ended 30 June 2015

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.

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.

Accounting Policies for the year ended 30 June 2015

1.21 Cash and cash equivalents (continued)

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

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

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

The 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 48.

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.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

2. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Bank balances	24 852 135	19 951 744

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
First National Bank - Cheque - 51590870208	136 141	1 927 149	1 084 226	238 533	1 927 149	1 084 226
First National Bank - Current Account - 62054655827	2 138 994	632 694	682 682	2 169 626	632 694	682 682
First National Bank - Call Account - 62033239783	22 443 976	17 391 901	15 656 901	22 443 976	17 391 901	15 656 901
Total	**24 719 111**	**19 951 744**	**17 423 809**	**24 852 135**	**19 951 744**	**17 423 809**

3. Receivables from non-exchange transactions

Fines	2 139 375	1 378 645
Rates	34 933 508	27 717 077
Less: Allowance for impairment	(33 825 120)	(25 245 190)
	3 247 763	**3 850 532**

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

Balance at the beginning of the year	(25 245 191)	(26 268 645)
Contributions to allowance	(8 579 929)	1 023 454
	(33 825 120)	**(25 245 191)**

As of 30 June 2015, receivables from non-exchange transactions of R 33,825,120 (2014: R 25,245,191) were impaired and provided for.

Included in debt impairment of receivables from non-exchange transactions is impairment amounting to R 32,220,589 (2014: R 24,196,676) for property rates and R 1,604,531 (2014: R 1,048,514) for fines.

As of 30 June 2015, the net carrying amounts of receivables from non-exchange transactions were R 2,712,919 (2014: R 3,520,401) for property rates and R 534,844 (2014: R 330,131) for fines.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

4. Receivables from exchange transactions

Gross balances		
Electricity	22 184 448	19 753 673
Water	55 679 053	50 707 067
Sewerage	59 074 454	52 045 508
Refuse	33 591 195	29 631 533
Deposit	24 233	29 758
Other	91 417 335	73 474 232
	261 970 718	**225 641 771**
Less: Allowance for impairment		
Electricity	(18 154 929)	(15 317 678)
Water	(53 226 973)	(48 534 698)
Sewerage	(56 622 691)	(49 775 987)
Refuse	(32 373 048)	(28 512 503)
Deposit	(21 482)	(28 382)
Other	(84 635 569)	(66 837 619)
	(245 034 692)	**(209 006 867)**
Net balance		
Electricity	4 029 519	4 435 995
Water	2 452 080	2 172 369
Sewerage	2 451 763	2 269 521
Refuse	1 218 147	1 119 030
Deposit	2 751	1 376
Other	6 781 766	6 636 613
	16 936 026	**16 634 904**
Electricity		
Current (0 -30 days)	2 184 925	2 657 554
31 - 60 days	1 295 990	767 587
61 - 90 days	548 604	1 010 854
	4 029 519	**4 435 995**
Water		
Current (0 -30 days)	1 168 005	940 465
31 - 60 days	656 395	658 714
61 - 90 days	627 680	573 190
	2 452 080	**2 172 369**
Sewerage		
Current (0 -30 days)	1 049 049	939 223
31 - 60 days	709 639	685 729
61 - 90 days	693 075	644 569
	2 451 763	**2 269 521**
Refuse		
Current (0 -30 days)	419 403	387 728
31 - 60 days	403 201	370 238
61 - 90 days	395 543	361 064
	1 218 147	**1 119 030**

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

4. Receivables from exchange transactions (continued)

Housing rental		
Current (0 -30 days)	900	1 200
31 - 60 days	1 557	176
61 - 90 days	294	-
	2 751	**1 376**

Other		
Current (0 -30 days)	2 873 976	2 979 323
31 - 60 days	1 965 610	2 211 306
61 - 90 days	1 942 180	1 445 984
	6 781 766	**6 636 613**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(209 006 867)	(193 862 049)
Contributions to allowance	(36 027 825)	(15 144 818)
	(245 034 692)	**(209 006 867)**

Consumer debtors impaired

As of 30 June 2015, receivables from exchange transactions of R 245 034 692 (2014: R 209,006,867) were impaired and provided for.

5. Other receivables

Trade and other debtors	-	111 475

6. Inventories

Consumable stores	407 085	172 026
Water	37 127	39 494
	444 212	**211 520**

Inventory pledged as security

There was no inventory pledged as security at year end.

Inventory recognition

Consumable stores at year end are composed of electricity meters, tar bags and water meters.

Inventory has been valued at cost.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

7. Intangible assets

	2015			2014		
	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 - 2015

	Opening balance	Total
Servitudes	350 074	350 074

Reconciliation of intangible assets - 2014

	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 (2014: 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.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

9. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	3 879 958	-	3 879 958	3 805 000	-	3 805 000

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Land and buildings	3 805 000	74 958	3 879 958

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Land and buildings	6 456 880	(2 651 880)	3 805 000

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.

Details of valuation

The effective date of the valuations was 30 June 2015. Revaluations were performed by an independent valuer, Rashika Naidu, of i@ Consulting. i@ Consulting are not connected to the municipality and have knowledge of the location and category of the investment property being valued.

The valuation was based on open market values for existing use.

10. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	57 872 906	(48 736 725)	9 136 181	57 872 906	(47 332 481)	10 540 425
Infrastructure	723 040 017	(488 658 208)	234 381 809	698 809 527	(472 782 497)	226 027 030
Community	73 791 422	(37 284 183)	36 507 239	57 066 352	(36 078 698)	20 987 654
Other property, plant and equipment	17 265 626	(12 677 564)	4 588 062	18 785 820	(12 485 745)	6 300 075
Capital work in progress	27 092 565	-	27 092 565	13 493 538	-	13 493 538
Total	**899 062 536**	**(587 356 680)**	**311 705 856**	**846 028 143**	**(568 679 421)**	**277 348 722**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	WIP Capitalised	Depreciation	Impairment loss	Total
Land and buildings	10 540 425	-	-	(1 403 211)	(1 033)	9 136 181
Infrastructure	226 027 030	4 434 847	20 129 924	(16 148 961)	(61 031)	234 381 809
Community	20 987 654	14 200 000	2 830 776	(1 506 083)	(5 108)	36 507 239
Other property, plant and equipment	6 300 075	808 725	-	(2 122 946)	(397 792)	4 588 062
Capital work in progress	13 493 538	36 846 706	(22 960 700)	-	(286 979)	27 092 565
	277 348 722	**56 290 278**	**-**	**(21 181 201)**	**(751 943)**	**311 705 856**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	WIP Capitalised	Depreciation	Impairment loss	Total
Land and buildings	12 051 831	-	-	(1 511 406)	-	10 540 425
Infrastructure	239 621 020	-	2 910 116	(16 388 356)	(115 750)	226 027 030
Community	19 667 002	-	2 764 410	(1 439 157)	(4 601)	20 987 654
Other property, plant and equipment	7 384 050	437 799	-	(1 513 334)	(8 440)	6 300 075
Capital work in progress	6 102 078	13 065 986	(5 674 526)	-	-	13 493 538
	284 825 981	**13 503 785**	**-**	**(20 852 253)**	**(128 791)**	**277 348 722**

Pledged as security

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

See note 31 for details on impairment of assets.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

11. Payables from exchange transactions

Trade payables	47 972 458	35 451 985
Accrued leave pay	5 261 062	5 307 518
Accrued bonus	799 580	784 732
	54 033 100	**41 544 235**

12. Consumer deposits

Deposits held on consumers	1 449 175	1 453 125

13. VAT payable

VAT payable	18 506 450	16 599 431

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:

Municipal Infrastructure Grant	19 395 026	20 486 317
Integrated National Electrification Programme	1 500 000	-
Gert Sibande District Municipality Grant	544 196	-
	21 439 222	**20 486 317**

See note 21 for the reconciliation of grants from National/Provincial Government.

15. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Increase in provision	Decrease in provision	Total
Provision for Landfill site	14 454 073	-	(1 014 824)	13 439 249
Provision for Long Service Awards	1 085 430	521 475	-	1 606 905
Department of Water Affairs	12 016 765	1 972 212	-	13 988 977
	27 556 268	**2 493 687**	**(1 014 824)**	**29 035 131**

Reconciliation of provisions - 2014

	Opening Balance	Increase in provision	Decrease in provision	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
Department of Water Affairs	11 019 483	997 282	-	12 016 765
	17 994 365	**9 628 354**	**(66 451)**	**27 556 268**

	2015	2014
Non-current liabilities	14 908 979	15 438 738
Current liabilities	14 126 152	12 117 530
	29 035 131	**27 556 268**

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.

The 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 is 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.

Department of Water Affairs

The municipality is not in agreement with the rate per cubic meter charged by the Department of Water Affairs for extraction of raw water.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

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/GRAP 25 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: IAS 19 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 GRAP 25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 9.00% 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 2015. 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 8.12% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.62%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.82% which derives from ((1+9.00%)/(1+8.12%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2016.

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:

	2015	2014
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(9 373 269)	(7 200 764)
Non-current liabilities	(9 142 857)	(6 986 228)
Current liabilities	(230 412)	(214 536)
	(9 373 269)	**(7 200 764)**

The fair value of plan assets includes:

Figures in Rand	2015	2014 Restated

16. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	435 295	397 790
Interest cost	644 872	563 161
Actuarial (gains) losses	1 306 874	99 227
Curtailment	(214 536)	(198 264)
	2 172 505	**861 914**

Assumptions used at the reporting date:

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

Discount Rate: IAS 19 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 GRAP 25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 9.00% 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 2015. 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 8.12% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.62%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.82% which derives from ((1+9.00%)/(1+8.12%))-1.

The expected inflation assumption of 6.62% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.77%) and those of fixed interest bonds (9.00%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+9.00%-0.50%)/1+1.69)/(1+1.77))-1.

The next contribution increase was assumed to occur with effect from 1 January 2016.

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.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

17. Service charges

Sale of electricity	37 666 812	36 052 072
Sale of water	13 055 527	13 314 133
Sewerage and sanitation charges	12 514 526	12 145 253
Refuse removal	5 067 631	4 708 496
	68 304 496	**66 219 954**

18. Other income

Advertising businesses	5 000	1 118
Burial fees	82 660	116 533
Certificates of compliance	3 377	-
Clearance certificates	324 196	499 714
Decrease in provision for landfill site (See note 15)	1 014 824	-
Donations (See note 46)	12 997 135	1 096 999
Electricity meter testing	-	351
Escorting vehicles	19 363	121 059
Fines: Library	1 689	5 832
IEC Election revenue	-	400
Insurance pay-out received	106 329	126 923
Penalties	112 700	53 900
Photocopies	8 605	12 317
Reconnection fees	21 391	18 191
Refuse bins	6 421	2 947
Tender documents	23 465	47 150
Tombstone erection	24 565	28 163
Town establishment	75 206	201 350
Trade licence fees	1 053	1 899
Valuation certificate	208	391
	14 828 187	**2 335 237**

19. Investment revenue

Interest revenue		
Bank	705 277	631 902
Interest charged on financial instruments	15 799 455	9 517 462
	16 504 732	**10 149 364**

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

20. Property rates

Rates received

Property rates	10 203 275	9 676 271

Valuations

Residential	895 976 200	764 216 100
Commercial	434 095 470	385 059 120
State	134 936 600	106 460 300
Municipal	91 931 799	77 384 500
Small holdings and farms	1 453 205 000	1 525 388 000
Religious places	20 523 000	16 794 000
	3 030 668 069	**2 875 302 020**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014.

A general rate of R 0.00653 (2014: R 0.0.00615) is applied to property valuations to determine assessment rates. Rebates of 30% (2014: 30%) are granted to residential and state property owners.

21. Government grants and subsidies

Operating grants		
Equitable Share	48 618 000	46 059 000
Financial Management Grant	1 800 000	1 550 000
Municipal System Improvement Grant	934 000	890 000
Expanded Public Works Program Grant	1 435 000	1 000 000
Gert Sibande District Municipality Grant	1 655 804	-
LG Seta	524 774	-
Department of Water Affairs	-	204 651
	54 967 578	49 703 651
Capital grants		
Municipal Infrastructure Grant	29 435 290	13 637 476
Department of Human Settlements Grant	13 680 000	-
Integrated National Electrification Programme	-	350 199
	43 115 290	13 987 675
	98 082 868	**63 691 326**

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 170 (2014: R 152), which is funded from the grant.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

21. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	20 486 317	16 641 793
Current-year receipts	28 985 000	20 593 000
Conditions met - transferred to revenue	(29 435 291)	(13 637 476)
Amount withheld by National Treasury	(641 000)	(3 111 000)
	19 395 026	**20 486 317**

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

This grant was used to construct basic municipal infrastructure to provide basic services for the benefit of the community. Other than the unspent and withheld amounts as disclosed, the conditions of the grant were met.

Department of Human Settlements Grant

Current-year receipts	13 680 000	-
Conditions met - transferred to revenue	(13 680 000)	-
	-	**-**

This grant was used to purchase land which will be developed for the benefit of the community. The conditions of the grant were met and no funds have been withheld.

Integrated National Electrification Programme

Balance unspent at beginning of year	-	350 199
Current-year receipts	1 500 000	-
Conditions met - transferred to revenue	-	(350 199)
	1 500 000	**-**

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

This grant will be used to address the electrification backlog of permanently occupied residential dwellings. The conditions of the grant were not met and the funds have been disclosed as unspent conditional grants.

Financial Management Grant

Current-year receipts	1 800 000	1 550 000
Conditions met - transferred to revenue	(1 800 000)	(1 550 000)
	-	**-**

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003. The conditions of the grant were met and no funds have been withheld.

Municipal System Improvement Grant

Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	**-**

This grant was used to build in-house capacity to perform their functions and stabilise institutional and governance systems. The conditions of the grant were met and no funds have been withheld.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

21. Government grants and subsidies (continued)

Expanded Public Works Program Grant

Current-year receipts	1 435 000	1 000 000
Conditions met - transferred to revenue	(1 435 000)	(1 000 000)
	-	-

The Expanded Public Works Program is a special performance-based incentive provided to provinces and municipalities that contribute to the employment creation efforts of the expanded public works program through the employment of previously unemployed people. The conditions of the grant were met and no funds have been withheld.

Gert Sibande District Municipality Grant

Current-year receipts	2 200 000	-
Conditions met - transferred to revenue	(1 655 804)	-
	544 196	-

Balance remains liabilities and will be paid back to Gert Sibande District Municipality. (see note 14).

This grant was used to pay employees leave encashment. Other than the unspent amount as disclosed, the conditions of the grant were met.

LG Seta

Current-year receipts	524 774	-
Conditions met - transferred to revenue	(524 774)	-
	-	-

This grant was used to provide support training for employees. The conditions of the grant were met and no funds have been withheld.

Department of Water Affairs

Balance unspent at beginning of year	-	204 651
Conditions met - transferred to revenue	-	(204 651)
	-	-

This grant was used to subsidise and build capacity in water schemes owned by the municipality. The conditions of the grant were met and no funds have been withheld.

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.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

22. Revenue

Service charges	68 304 496	66 219 954
Rental of facilities and equipment	203 359	212 313
Licences and permits	3 379 282	3 264 756
Other income	14 828 187	2 335 237
Investment revenue	16 504 732	10 149 364
Property rates	10 203 275	9 676 271
Government grants & subsidies	98 082 868	63 691 326
Fines	925 750	990 830
	212 431 949	**156 540 051**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	68 304 496	66 219 954
Rental of facilities and equipment	203 359	212 313
Licences and permits	3 379 282	3 264 756
Other income	14 828 187	2 335 237
Investment revenue	16 504 732	10 149 364
	103 220 056	**82 181 624**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	10 203 275	9 676 271
Transfer revenue		
Government grants & subsidies	98 082 868	63 691 326
Fines	925 750	990 830
	109 211 893	**74 358 427**

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

23. Employee related costs

Acting allowances	723 656	259 972
Basic salaries and wages	27 150 457	24 321 003
Bonus	1 871 595	1 759 212
Group insurance	441 379	432 451
Housing benefits and allowances	78 936	61 449
Industrial council levy	15 178	14 938
Leave pay	1 506 469	1 503 215
Medical aid - company contributions	1 539 513	1 275 255
Overtime payments	2 263 753	2 540 382
Post-employment benefits - Pension - Defined contribution plan	4 787 572	4 458 346
SDL	325 526	296 529
Standby allowances	210 564	175 729
Transport allowances	987 654	743 662
UIF	256 941	247 183
	42 159 193	**38 089 326**

Remuneration of municipal manager

Annual Remuneration	1 020 480	960 000
Travel, motor car, accommodation, subsistence and other allowances	11 989	11 993
	1 032 469	**971 993**

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

Remuneration of chief finance officer

Annual Remuneration	789 030	738 000
Travel, motor car, accommodation, subsistence and other allowances	111 932	111 430
	900 962	**849 430**

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

Remuneration of corporate services director

Annual Remuneration	312 188	389 881
Travel, motor car, accommodation, subsistence and other allowances	33 882	37 464
	346 070	**427 345**

Mr. T. Goba was appointed on the 1st of February 2015 as Corporate Services Director. Mrs. M. Mngomezulu was acting Corporate Services Director from the 1st of July 2014 to the 31st of January 2015.

Remuneration of community services director

Annual Remuneration	797 250	750 000
Travel, motor car, accommodation, subsistence and other allowances	32 484	8 729
	829 734	**758 729**

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

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

23. Employee related costs (continued)

Remuneration of technical services director

Annual Remuneration	797 250	750 000
Travel, motor car, accommodation, subsistence and other allowances	39 848	16 920
	837 098	**766 920**

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

Remuneration of planning and development director

Annual Remuneration	723 666	682 548
Travel, motor car, accommodation, subsistence and other allowances	119 223	76 137
	842 889	**758 685**

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

24. Remuneration of councillors

Executive Mayor	693 631	661 743
Speaker	559 078	533 639
Chief Whip	222 697	213 380
Mayoral Committee Members	1 050 880	1 003 112
Councillors	2 396 497	2 112 844
	4 922 783	**4 524 718**

In-kind benefits

The Executive Mayor, Speaker and the two Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor, from March 2015 is staying at a rented house at the cost to Council.

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

The Council, from March 2015 is paying for full-time bodyguards for seven councillors.

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

25. Depreciation and amortisation

Property, plant and equipment	21 181 201	20 852 253

26. Finance costs

Interest paid	932 455	1 318 095

27. Debt impairment

Contributions from receivables from exchange transactions	36 027 825	15 144 817
Contributions from receivables from non-exchange transactions	8 579 929	(1 023 454)
	44 607 754	**14 121 363**

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

28. Bulk purchases

Electricity	36 138 855	35 552 474
Water	1 429 557	1 353 611
	37 568 412	**36 906 085**

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

29. Grants and subsidies paid

Free basic services	584 678	952 710

30. General expenses

Advertising	264 427	734 840
Audit fees	2 994 348	4 067 935
Bank charges	342 831	323 792
Chemicals	3 319 478	2 875 630
Cleaning	191 676	184 236
Commission paid	429 335	395 199
Community development and training	86 025	95 715
Consulting and professional fees	6 859 295	8 521 050
Entertainment	-	115 159
Insurance	1 275 834	1 030 323
IT expenses	143 663	256 958
Lease rentals on operating lease	507 266	569 273
Licence fees	1 417 757	1 077 144
Medical expenses	-	12 100
Meter reading costs	-	67 048
Motor vehicle expenses	2 442 245	2 349 461
Postage and courier	1 144	2 058
Printing and stationery	5 438	4 691
Protective clothing	182 071	59 987
Restoration costs	-	8 631 072
Security costs	5 356 782	3 398 041
Staff welfare	459 749	80 570
Subscriptions and membership fees	541 000	498 080
Telephone costs	761 960	732 820
Training	741 598	581 820
Travel - local	1 101 258	1 555 171
Water extraction charges	1 730 011	874 809
	31 155 191	**39 094 982**

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

31. Impairment of assets

Impairments		
Property, plant and equipment	751 942	128 791

(i) During the current financial year, the municipal offices in Siyathemba were vandalised during a strike in March 2015. The extent of the damage (to the walls and roof) was an impairment of R1,033.

(ii) During the componentisation of current year additions, certain components were determined to replace already existing assets in the register, rather than new additions hence there were impairments amounting to R 61,031 for infrastructure assets.

(iii) The Siyathemba sport and recreation facility was impaired by R 5,108 as there was replacement of the facility.

(iv) During the year, various items of movable assets were assessed and impaired by R 397,792 due the damages and some of them were no longer in use.

(v) During the current financial year a WIP project (Contract DLM 35/09/2011, WIP reference 015) was terminated, due to contractor disputes, and will not continue into the foreseeable future. As such it was determined that the project would be impaired amounting to R286,979.

The fair values less costs to sell the assets has not been determined as there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties due to the nature of the assets. Therefore the value in use of the assets was determined in accordance with GRAP 21.31.

32. Auditors' remuneration

Fees	2 994 348	4 067 935

33. Cash generated from operations

Surplus (deficit)	20 155 843	(11 626 647)
Adjustments for:		
Depreciation and amortisation	21 181 201	20 852 253
Fair value adjustments	(74 958)	2 651 879
Impairment deficit	751 942	128 791
Debt impairment	44 607 754	14 121 363
Movements in retirement benefit assets and liabilities	2 172 505	861 915
Movements in provisions	1 478 863	9 561 903
Payables from exchange transactions	12	-
Changes in working capital:		
Inventories	(232 692)	(51 540)
Receivables from exchange transactions	(44 908 876)	(26 319 487)
Receivables from non-exchange transactions	602 769	(3 086 066)
Other receivables	111 475	(111 475)
Payables from exchange transactions	12 488 857	898 448
VAT	1 907 019	4 791 647
Unspent conditional grants and receipts	952 905	3 289 674
Consumer deposits	(3 950)	69 062

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

34. Commitments

Authorised capital and operating expenditure

Already contracted for but not provided for		
• Capital expenditure	9 898 515	27 244 730
• Operating expenditure	5 229 822	10 443 233
	15 128 337	**37 687 963**

This committed expenditure relates to capital 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	309 105	323 460
- in second to fifth year inclusive	138 600	447 705
	447 705	**771 165**

The total future minimum sublease payments expected to be paid under non-cancellable sublease	-	771 165

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

(i) Prompt services is suing the municipality for various unpaid invoices amounting to R 140,348.

(ii) E L Gondor trading is suing the municipality for various unpaid invoices and interests amounting to R 139,229.

(iii) Agri operations is suing the municipality for electricity which is unrelated to the volume of consumption. The amount being claimed is R 1,884,046.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

36. Related parties

Relationships

Councillor. W.S. Davel	MTS Specialists cc t/a Creative Embroidery registration number: 1998/054873/23
Councillor. W.S. Davel	Advi data 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		
Master Hoster	-	700
Advi data Trading	3 088	5 185

Key management information

Class	Description	Number
Executive Mayor	Councillor. N.S. Nhlapo	1
Councillors	Refer to general information on page 1	12
Municipal Manager	Mr D.V. Ngcobo	1

37. Changes in accounting estimate

Property, plant and equipment

During the current financial year the Remaining Useful Lives (RUL) of assets was assessed, and a number of adjustment were made to the opening RUL for 2015. The adjustment resulted in a change in estimate for the current year of increased useful lives from between 1 and 2 to 2 and 3.
The effect of this revision has reduced the depreciation charges for the current and future periods by R 1 455 313.

38. Prior period errors

- Property, Plant and Equipment with a carrying amount of R11,163,005 was corrected in the current year. Work in progress included non capital projects and other projects that had been completed hence the need to restate.
- Investment property included a school that had a carryying amount of R 2,914,913 that was taken out of investment property and there was a fair value adjustment loss of R 2,857,995 being recognised in prior year.
- Service charges were incorrectly overstated by R 69,503 due to incorrect billing on consumers.
- Property rates was restated by R7,163,004 due to incorrect charges being levied on the farmers.
- Depreciation was restated by R 270,786 due to assets that had not been previously included in the municipality's asset register.
- Debt impairment included incorrect service charges that were restated resulting in the recalculation of the provision for debt impairment as at 30 June 2014 and incorrect property rates charged to the farmers that was written off.
- Grants and subsies were restated due to indigents that were not processed in the indigent debtor's account in the 2013/14 financial year.
- Payables from exchange transactions increased by R12,016,765 due to the Department of Water Affairs water extraction charges that were previously accounted for as contigent liabilities. This also resulted in the increase in VAT by R1,475,743 and water extraction charges included in General expenses increased by an amount of R874,809.

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

Figures in Rand	2015	2014 Restated

38. Prior period errors (continued)

Statement of financial position		
Property, plant and equipment	-	(11 163 976)
Investment property	-	(5 945 556)
Payables from exchange transactions	-	12 016 765
VAT payable	-	(1 475 743)
Opening Accumulated Surplus	-	27 650 554
Statement of Financial Performance		
Service charges	-	698 682
Depreciation and amortisation expense	-	(271 958)
Debt impairment	-	(9 299 672)
Grants and subsidies paid	-	520 826
General expenses	-	874 809
Fair value adjustment	-	3 030 634

39. Comparative figures

Certain comparative figures have been reclassified.

40. 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.

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 and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Figures in Rand	2015	2014 Restated

40. Risk management (continued)

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.

41. 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.

42. Events after the reporting date

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

43. Unauthorised expenditure

	2015	2014
Opening balance	87 343 103	85 077 900
Add: Unauthorised expenditure - current year	12 373 860	2 265 203
Less: Approved by council (written off)	(85 077 900)	-
Unauthorised expenditure awaiting authorisation	**14 639 063**	**87 343 103**

44. Fruitless and wasteful expenditure

	2015	2014
Opening balance	3 086 541	1 554 632
Add: Fruitless and wasteful expenditure - current year	932 455	1 531 909
Less: Approved by council (written off)	(2 043 257)	-
Fruitless and wasteful expenditure awaiting condonement	**1 975 739**	**3 086 541**

The fruitless and wasteful expenditure for R 932,455 (2014: R 1,318,095) relates to interest charged on late payments to Eskom and SARS.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

45. Irregular expenditure

Opening balance	31 732 740	17 403 320
Add: Irregular - current year expenditure	13 526 804	14 329 420
Irregular expenditure awaiting condonement	**45 259 544**	**31 732 740**

The amount of 2015: R 13,526,804 (2014: R 14,329,420) relates to irregular expenditure – current year.

The above irregular expenditure is currently being investigated by the Municipal Public Accounts Committee who will provide recommendations for recoverability and any disciplinary steps that will be taken. As at 30 June 2015 they were not yet completed with their processes.

The detailed list of current year irregular expenditure is shown below:

Figures in Rand		2015	2014 Restated

45. Irregular expenditure (continued)

Details of current year irregular expenditure

AL Mphago Kemase	Adjudication committee did not have at least four senior officials and at least one senior supply chain management practitioner.	-
AONSA	The reasons not tabled to Council and contract amount more than legislated 15%.	1 275 834
Avidata Tradiing	The Director of the company is in the service of the state.	3 088
BICACON	Adjudication committee did not have at least four senior officials and at least one senior supply chain management practitioner.	299 609
Elster Kent	Sole supplier on the database	25 376
Gai Trading	Adjudication committee did not have at least four senior officials and at least one senior supply chain management practitioner.	3 346 519
G4S	The reasons not tabled to Council and contract amount more than legislated 15%.	146 649
Ilca Trading	In case of emergency	148 723
JN Construction	In a case of ermergency, the Fortuna water works exprerienced a robbery	178 313
Karen Beef	SCM processes not adhered to	-
Kaydon Services	Cover quoting and abuse of SCM system of the Municipality.	71 950
Khumza	Goods have been split to lesser amount	143 142
Lapicasso guesthouse	Restricted supplier on National Tresuary database	1 300
Lima Liqhawe Investments	Unsolited Bid	257 624
Maximum Profit Recovery	The reasons not tabled to Council and contract amount more than legislated 15%.	647 980
Metsung Pty Ltd	Goods Have been split to lesser amount	7 143
Midnight Spark Trading cc	Sole provider on the supplier database	87 500
Mmamotle Bed and Breakfast	Goods Have been split to lesser amount	28 350
MMT Business	Goods Have been split to lesser amount	27 700
Mouro Bathong Investments	In case of ermegency.	12 400
Mpendolu Construction and Projects	Goods Have been split to lesser amount and the Director is in the service of the State.	43 229
Mshengo Civil Works	Adjudication committee did not have at least four senior officials and at least one senior supply chain management practitioner.	3 512 155
Mulalo Consulting Engineers	The contract was awarded while the following conditions were not met: 1, page 16 of the tender document is not completed in full, 2,Only one person signed the document without witness	248 665
Mutanga Trading Entreprise	Director in the service of the State	129 050
Ndlunkhulu Engineering	Non Compliance with section 32 of the SCM regulation.	-
Oakdale/Hwiri Trading	Adjudication committee did not have at least four senior officials and at least one senior supply chain management practitioner.	1 470 162
PD Naidoo (Pty) Ltd	Adjudication committee did not have at least four senior officials and at least one senior supply chain management practitioner.	217 291
R and T Projects	Goods Have been split to lesser amount	29 600
Sizwe Ntsaluba	The reasons not tabled to Council and contract amount more than legislated 15%.	1 117 592
U can Construction	In case of ermegency.	21 110
Vision Consumables	Supplier with lowest quoatation not awarded	28 750

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

45. Irregular expenditure (continued)

			13 526 804

Details of current year supply chain deviations

Aida	Accomodation for the Executive mayor after the riots	18 108
Aptus IT SA	There were only two service provider available rendering this nature of service (Psychometric assesment)	11 600
Aqua Agri Solutions	Sole supplier on database for 2013/14 FY	44 418
Arch Actuals Consulting	Sole supplier on database	12 000
Balfour Spar	In case of ermegency, Balfour Primary had their breaker burnt down.	13 652
Bombai Electrical	In a case of ermegency, two cables at eskom village had blown up	110 113
Cascade Manufacturing & Distribution	Sole supplier on database	11 952
Conlog	Have contract with service provider	79 327
DJ Motors	Sole supplier on database	18 533
DRK Consulting	In a case of ermergency, Pump effect at pump station in Nthorwane was damaged by lightning	26 290
El Shadai printers	Sole supplier on database	14 950
Hardware Dynamics	In case of emergency: Grootvlei EXT1 have no eletricity for a week due to cable theft	80 507
Heruat publishers	Sole supplier on database	4 992
Jobvest	Other Media companies were closed	23 957
Kenyon Security Services	Security for Councillors	858 947
Mkulu Ontsudu IT Projects	Sole supplier in the database.	14 900
Munsoft (pty) Ltd	Sole supplier/ have contract with the service provider	217 805
Pine lake Inn	Other hotels were fully Booked	4 295
Prompt services	In a case of ermergency, no water at Greylingstad due to cable theft	13 627
Protea Hotel	Other hotels were fully booked	20 484
Sthuthamagade Trading	Only two suppliers responded.	10 500
Suikerbosrand Guesthouse	Accomodation for the Executive mayor after the riots	6 850
Truvelo	Sole supplier on the database	2 584
Vision Consumables PTY (LTD)	In a case of ermegency, the pump was broken in Greylingstad	29 052
Workshop Electronics	Service and calibrate of vehicle test equipment as prescribed by SANS 10216	7 271
		1 656 714

The above supply chain deviations have been reported to council.

46. In-kind donations and assistance

(i) The Municipality received a donation from Sasol of the upgrading of the Nthorowane township roads valued at an total of R 9,265,063.

(ii) The Municipality received a donation from Gert Sibande District Municiplity of the turnkey design and upgrading of sport facility (stadium) in Siyathemba valued at R 2,630,393 and land for cemetry in Grootvlei valued at R 1,000,000.

(iii) The Municipality received a donation of 10 desktop computers valued at R 101,680 from Trans-Caledon Tunnel Authority for the benefit of the community.

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

47. Additional disclosure in terms of Municipal Finance Management Act

Material distribution losses

Electricity	578 374	1 616 704
Water	5 013 287	3 061 470
	5 591 661	**4 678 174**

Electricity distribution losses for the current year were **1.60% amounting to R578,374 (2014: 4.55% amounting to R1,616,704)**. These electricity distribution losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network and non-technical losses being theft, faults etc. Attempts are currently being made to reduce these non-technical losses.

Water distribution losses comprises of non-billed water, and for the current year were **66%, amounting to R5,013,287 (2014: 43% amounting to R3,061,470)**. These water distribution losses cannot be accounted for mainly due to theft, faultly pipes, spillages etc. This problem is currently being addressed by installing additional meters and a data cleansing process will be initiated to address the losses.

See note 28 for the total electricity bulk purchases for the year. For water, the Municipality purifies its own water except for the water supplied by Eskom to Grootvlei (ward 5) residents.

Contributions to organised local government

Current year subscription / fee	505 000	466 000
Amount paid - current year	(505 000)	(466 000)
	-	-

Audit fees

Current year subscription / fee	2 994 348	4 067 935
Amount paid - current year	(2 985 881)	(4 067 935)
	8 467	-

Pension and Medical Aid Deductions

Opening balance	520 043	-
Current year subscription / fee	6 770 108	6 089 422
Amount paid - current year	(7 290 151)	(5 569 379)
	-	**520 043**

PAYE and UIF

Opening balance	1 978 798	1 508 235
Current year subscription / fee	6 427 685	5 594 300
Amount paid - current year	(6 851 613)	(5 123 737)
	1 554 870	**1 978 798**

VAT

VAT payable	18 506 450	16 599 431

VAT output payable is shown in note 13.

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

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

47. 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 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor. D.G. Zwane	1 942	10 349	12 291
Councillor. M. Tsotetsi	432	508	940
	2 374	**10 857**	**13 231**

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor. D.G. Zwane	467	9 206	9 673
Councillor. M.D. Khanye	206	3 383	3 589
Councillor. M. Tsotetsi	100	488	588
	773	**13 077**	**13 850**

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

30 June 2015	Highest outstanding amount	Aging (in days)
Councillor. D.G. Zwane	12 291	120
Councillor. M. Tsotetsi	940	120
	13 231	**240**

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
	13 850	**360**

Notes to the Audited Annual Financial Statements

Figures in Rand	2015	2014 Restated

48. 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 more donations from Gert Sibande District Municipality and Sasol than in the previous financial year.

45.2 Increase in Grants was due to increased spending in MIG and Department of Human Settlements.

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

45.4 Increase in debt impairment was due to bad debt wirtten off on the farmers accounts.

45.5 Bulk purchases was over budgeted for.

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