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

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government: Municipal Demarcation Act, 1998. Providing municipal services and maintain the best interests of the local community mainly in the Tswelopele area.
Executive committee	Mathibe, ME (Mayor) Horn, C Moalosi, PP
Councillors	Matlakala, TA (Speaker) Baleni, MS Bonokwane, MS Eseu, BP Joubert, EC Ngexe, MJ Njodina, DA Phukuntsi, KR Raseu, MW Snyer, MM Taedi, TT Taljaard, MJ
Municipal demarcation code	FS183
Grading of local authority	Grade 2
Capacity of local authority	Medium Capacity
Chief Finance Officer (CFO)	Moletsane, NL
Accounting Officer	Mkhwane, TL
Registered office	Civic Centre Bosman Street Bultfontein 9670
Postal address	PO Box 3 Bultfontein 9670
Bankers	ABSA Bank Limited
Auditors	The Auditor-General of South Africa

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IFRS	International Financial Reporting Standards
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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

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

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

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

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

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

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

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on his behalf by:

Mkhwane, TL
Accounting officer

Audit Committee Report

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

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 (four) times per annum as per its approved terms of reference. During the current year 6 (six) meetings were held.

Name of member	Number of meetings attended
Mr V Vapi (Chairperson)	5
Mr C van Wyk	6
Mr G Ramavhea	6
Mr R Lubisi	6

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

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

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

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

Evaluation of annual financial statements

The audit committee has:

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

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: ______________________

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	6 355 430	12 848 020
Receivables from exchange transactions	4	4 104 531	1 630 512
Other receivables from exchange transactions	5	942 058	1 248 119
Receivables from non-exchange transactions	6&7	4 340 422	115 412
VAT receivable	8	5 493 494	441 318
Inventories	9	539 958	341 189
		21 775 893	**16 624 570**
Non-Current Assets			
Biological assets that form part of an agricultural activity	10	2 254 313	1 184 674
Investment property	11	23 521 334	23 698 667
Property, plant and equipment	12	413 135 960	405 116 808
Other financial assets	13	971 762	917 100
		439 883 369	**430 917 249**
Total Assets		**461 659 262**	**447 541 819**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	24 093 601	14 909 968
Consumer deposits	15	783 462	459 011
Other financial liabilities	16	686 799	614 729
Finance lease obligation	17	130 676	387 460
Unspent conditional grants and receipts	18	9 907 057	1 679 915
Employee benefit obligation	20	2 010 000	418 000
		37 611 595	**18 469 083**
Non-Current Liabilities			
Other financial liabilities	16	10 550 466	11 237 529
Finance lease obligation	17	71 399	11 977
Employee benefit obligation	20	7 884 000	9 777 000
Provisions	19	3 912 898	3 036 909
		22 418 763	**24 063 415**
Total Liabilities		**60 030 358**	**42 532 498**
Net Assets		**401 628 904**	**405 009 321**
Accumulated surplus		401 628 902	405 009 321

* See Note 41 & 42

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	35 963 638	33 424 012
Rental income	23	389 725	290 489
Interest received - trading		1 244 465	690 834
Interest received - investment	24	734 452	1 465 076
Dividends received - investment	24	40 552	51 104
Licences and permits		10 200	5 505
Other income	25	979 008	782 806
Total revenue from exchange transactions		**39 362 040**	**36 709 826**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	13 502 050	11 122 728
Transfer revenue			
Government grants and subsidies	27	93 281 138	97 926 749
Fines, penalties and forfeits		373 800	299 000
Total revenue from non-exchange transactions		**107 156 988**	**109 348 477**
Total revenue	21	**146 519 028**	**146 058 303**
Expenditure			
Employee related costs	28	(52 344 148)	(44 865 947)
Remuneration of councillors	29	(4 441 088)	(4 175 336)
Debt impairment	30	(2 754 679)	(16 532 694)
Depreciation and amortisation	31	(20 063 597)	(19 853 382)
Finance costs	32	(1 984 025)	(4 026 599)
Repairs and maintenance		(7 257 737)	(4 501 199)
Bulk purchases	33	(32 024 364)	(29 288 913)
Contracted services	34	(22 988)	(34 268)
General expenses	35	(29 462 137)	(25 100 677)
Loss on disposal of assets		(52 758)	(11 878)
Total expenditure		**(150 407 521)**	**(148 390 893)**
Operating deficit		**(3 888 493)**	**(2 332 590)**
Fair value adjustments	36	54 661	19 919
Gain on biological assets		1 069 639	53 198
		1 124 300	**73 117**
Deficit for the year		**(2 764 193)**	**(2 259 473)**

* See Note 41 & 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**407 268 793**	**407 268 793**
Changes in net assets		
Surplus/(deficit) for the year	(2 259 472)	(2 259 472)
Total changes	(2 259 472)	(2 259 472)
Restated* Balance at 01 July 2014	**404 393 095**	**404 393 095**
Changes in net assets		
Surplus/(deficit) for the year	(2 764 193)	(2 764 193)
Total changes	(2 764 193)	(2 764 193)
Balance at 30 June 2015	**401 628 902**	**401 628 902**

Note(s)

* See Note 41 & 42

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		43 351 039	36 927 109
Grants		100 552 319	99 606 664
Interest income		734 452	1 465 076
Dividends received		40 552	51 104
Revenue from non-exchange transactions		1 983 790	816 311
		146 662 152	138 866 264
Payments			
Employee costs		(57 313 293)	(49 041 283)
Suppliers		(64 810 344)	(51 389 169)
Finance costs		(1 981 923)	(3 906 220)
		(124 105 560)	(104 336 672)
Net cash flows from operating activities	37	**22 556 592**	**34 529 592**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(28 351 520)	(33 401 201)
Proceeds from sale of property, plant and equipment	12	116 798	18 269
Net cash flows from investing activities		**(28 234 722)**	**(33 382 932)**
Cash flows from financing activities			
Repayment of other financial liabilities		(614 994)	(1 690 304)
Finance lease payments		(199 465)	(718 847)
Net cash flows from financing activities		**(814 459)**	**(2 409 151)**
Net increase/(decrease) in cash and cash equivalents		**(6 492 589)**	**(1 262 491)**
Cash and cash equivalents at the beginning of the year		12 848 020	14 110 511
Cash and cash equivalents at the end of the year	3	**6 355 431**	**12 848 020**

* See Note 41 & 42

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 46)
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	38 171 000	3 500 000	**41 671 000**	35 963 638	**(5 707 362)**	
Royalty income	(600)	-	**(600)**	-	**600**	
Rental income	688 000	-	**688 000**	389 725	**(298 275)**	
Interest received - trading	760 000	-	**760 000**	1 244 465	**484 465**	
Licences and permits	-	-	**-**	10 200	**10 200**	
Other income	1 063 000	1 089 000	**2 152 000**	979 008	**(1 172 992)**	
Interest received - investment	-	-	**-**	734 452	**734 452**	
Dividends received - investment	100 000	-	**100 000**	40 552	**(59 448)**	
Total revenue from exchange transactions	**40 781 400**	**4 589 000**	**45 370 400**	**39 362 040**	**(6 008 360)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 958 000	5 650 000	**10 608 000**	13 502 050	**2 894 050**	
Transfer revenue						
Government grants and subsidies	66 028 000	-	**66 028 000**	93 281 138	**27 253 138**	
Fines, penalties and forfeits	375 000	-	**375 000**	373 800	**(1 200)**	
Total revenue from non-exchange transactions	**71 361 000**	**5 650 000**	**77 011 000**	**107 156 988**	**30 145 988**	
Total revenue	**112 142 400**	**10 239 000**	**122 381 400**	**146 519 028**	**24 137 628**	
Expenditure						
Employee related costs	(45 881 000)	(3 775 000)	**(49 656 000)**	(52 344 148)	**(2 688 148)**	
Remuneration of councillors	(4 794 000)	-	**(4 794 000)**	(4 441 088)	**352 912**	
Depreciation and amortisation	-	-	**-**	(20 063 597)	**(20 063 597)**	
Finance costs	(2 082 000)	-	**(2 082 000)**	(1 984 025)	**97 975**	
Debt impairment	(2 501 000)	-	**(2 501 000)**	(2 754 679)	**(253 679)**	
Other materials	(5 870 000)	-	**(5 870 000)**	(7 257 737)	**(1 387 737)**	
Bulk purchases	(22 100 000)	(2 749 000)	**(24 849 000)**	(32 024 364)	**(7 175 364)**	
Contracted services	-	-	**-**	(22 988)	**(22 988)**	
General expenses	(30 295 000)	(4 586 000)	**(34 881 000)**	(29 462 137)	**5 418 863**	
Total expenditure	**(113 523 000)**	**(11 110 000)**	**(124 633 000)**	**(150 354 763)**	**(25 721 763)**	
Operating deficit	**(1 380 600)**	**(871 000)**	**(2 251 600)**	**(3 835 735)**	**(1 584 135)**	
Loss on disposal of assets and liabilities	-	-	**-**	(52 758)	**(52 758)**	
Gain on Bilogical assets	-	-	**-**	1 069 639	**1 069 639**	
Fair value adjustments	-	-	**-**	54 661	**54 661**	
	-	**-**	**-**	**1 071 542**	**1 071 542**	
Deficit before taxation	**(1 380 600)**	**(871 000)**	**(2 251 600)**	**(2 764 193)**	**(512 593)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 46)
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(1 380 600)**	**(871 000)**	**(2 251 600)**	**(2 764 193)**	**(512 593)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 46)
Statement of Financial Position						
Assets						
Current Assets						
Inventories	50 000	-	**50 000**	539 957	**489 957**	
Other receivables from exchange transactions	7 049 000	-	**7 049 000**	942 059	**(6 106 941)**	
Receivables from non-exchange transactions	-	-	**-**	4 340 423	**4 340 423**	
VAT receivable	2 694 000	-	**2 694 000**	5 493 494	**2 799 494**	
Consumer debtors	-	-	**-**	4 104 530	**4 104 530**	
Cash and cash equivalents	6 500 000	-	**6 500 000**	6 355 430	**(144 570)**	
	16 293 000	**-**	**16 293 000**	**21 775 893**	**5 482 893**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	990 000	-	**990 000**	2 254 313	**1 264 313**	
Investment property	13 066 000	-	**13 066 000**	23 521 334	**10 455 334**	
Property, plant and equipment	383 416 000	-	**383 416 000**	413 135 958	**29 719 958**	
Other financial assets	1 036 000	-	**1 036 000**	971 762	**(64 238)**	
	398 508 000	**-**	**398 508 000**	**439 883 367**	**41 375 367**	
Total Assets	**414 801 000**	**-**	**414 801 000**	**461 659 260**	**46 858 260**	
Liabilities						
Current Liabilities						
Other financial liabilities	550 000	-	**550 000**	686 799	**136 799**	
Finance lease obligation	-	-	**-**	130 676	**130 676**	
Payables from exchange transactions	10 500 000	-	**10 500 000**	24 093 601	**13 593 601**	
Consumer deposits	250 000	-	**250 000**	783 462	**533 462**	
Employee benefit obligation	-	-	**-**	2 010 000	**2 010 000**	
Unspent conditional grants and receipts	-	-	**-**	9 907 057	**9 907 057**	
	11 300 000	**-**	**11 300 000**	**37 611 595**	**26 311 595**	
Non-Current Liabilities						
Other financial liabilities	13 182 000	-	**13 182 000**	10 550 466	**(2 631 534)**	
Finance lease obligation	-	-	**-**	71 399	**71 399**	
Employee benefit obligation	-	-	**-**	7 884 000	**7 884 000**	
Provisions	3 617 000	-	**3 617 000**	3 912 898	**295 898**	
	16 799 000	**-**	**16 799 000**	**22 418 763**	**5 619 763**	
Total Liabilities	**28 099 000**	**-**	**28 099 000**	**60 030 358**	**31 931 358**	
Net Assets	**386 702 000**	**-**	**386 702 000**	**401 628 902**	**14 926 902**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 46)
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	386 702 000	-	**386 702 000**	401 628 902	**14 926 902**	

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	4 958 000	5 650 000	10 608 000	-		10 608 000	13 502 050		2 894 050	127 %	272 %
Service charges	38 171 000	3 500 000	41 671 000	-		41 671 000	35 963 638		(5 707 362)	86 %	94 %
Investment revenue	760 000	-	760 000	-		760 000	775 003		15 003	102 %	102 %
Transfers recognised - operational	66 028 000	-	66 028 000	-		66 028 000	93 281 138		27 253 138	141 %	141 %
Other own revenue	2 226 000	1 089 000	3 315 000	-		3 315 000	4 009 415		694 415	121 %	180 %
Total revenue (excluding capital transfers and contributions)	**112 143 000**	**10 239 000**	**122 382 000**	**-**		**122 382 000**	**147 531 244**		**25 149 244**	**121 %**	**132 %**
Employee costs	(45 881 000)	(3 775 000)	(49 656 000)	-	-	(49 656 000)	(52 344 148)	-	(2 688 148)	105 %	114 %
Remuneration of councillors	(4 794 000)	-	(4 794 000)	-	-	(4 794 000)	(4 441 088)	-	352 912	93 %	93 %
Debt impairment	(2 501 000)	-	(2 501 000)			(2 501 000)	(2 754 679)	-	(253 679)	110 %	110 %
Depreciation and asset impairment	(5 870 000)	-	(5 870 000)			(5 870 000)	(20 063 597)	-	(14 193 597)	342 %	342 %
Finance charges	(2 082 000)	-	(2 082 000)	-	-	(2 082 000)	(1 984 025)	-	97 975	95 %	95 %
Materials and bulk purchases	(22 100 000)	(2 749 000)	(24 849 000)	-	-	(24 849 000)	(32 024 364)	-	(7 175 364)	129 %	145 %
Other expenditure	(30 295 000)	(4 586 000)	(34 881 000)	-	-	(34 881 000)	(36 795 619)	-	(1 914 619)	105 %	121 %
Total expenditure	**(113 523 000)**	**(11 110 000)**	**(124 633 000)**	**-**	**-**	**(124 633 000)**	**(150 407 520)**	**-**	**(25 774 520)**	**121 %**	**132 %**
Surplus/(Deficit)	**(1 380 000)**	**(871 000)**	**(2 251 000)**	**-**		**(2 251 000)**	**(2 876 276)**		**(625 276)**	**128 %**	**208 %**
Surplus/(Deficit) for the year	**(1 380 000)**	**(871 000)**	**(2 251 000)**	**-**		**(2 251 000)**	**(2 876 276)**		**(625 276)**	**128 %**	**208 %**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 41 Changes in accounting policy.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Receivables

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

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

Impairment testing

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

Value in use of cash generating assets:

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

Value in use of non-cash generating assets:

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 Provisions.

Useful lives of property, plant and equipment and other assets

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

Post employment benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

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

Allowance for impairment

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

1.3 Biological assets that form part of an agricultural activity

The municipality recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

1.4 Investment property

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

1.4 Investment property (continued)

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

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

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

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

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

Cost model

Subsequent to initial measurement investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value, on a straight line basis over the useful life of the property, which is as follows:

Item	Useful life
Land	indefinite
Buildings	30 - 45 years

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

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

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment are initially recognised at cost.

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, it's cost is measured at the carrying amount of the asset given up.

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

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

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

Item	Average useful life
Land	Indefinite
Buildings	2 - 30 years
Leasehold property	2 - 5 years
Furniture and fixtures	3 - 15 years
IT equipment	3 - 10 years
Infrastructure	3 - 100 years
Other property, plant and equipment	0 - 20 years

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

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

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

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

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

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

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

Accounting Policies

1.6 Site restoration and dismantling cost

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

The related asset is measured using the cost model:

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

1.7 Financial instruments

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

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

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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

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

Financial assets measured at amortised cost:

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

1.7 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

Financial liabilities

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

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

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

Accounting Policies

1.8 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

Operating leases - lessee

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

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

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

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

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

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

1.9 Inventories (continued)

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

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

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

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

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

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

1.10 Value-added Tax (VAT)

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

1.11 Impairment of cash-generating assets

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

Identification

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

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

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

Value in use

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

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

Discount rate

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

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

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

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

1.13 Share capital / contributed capital

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

Accounting Policies

1.14 Statutory receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

1.14 Statutory receivables (continued)

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

1.15 Employee benefits

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

1.15 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

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

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.15 Employee benefits (continued)

Other long-term employee benefits

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

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

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

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

Termination benefits

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

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

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

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

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

1.16 Provisions and contingencies

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

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

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

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

Accounting Policies

1.16 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating expenditure.

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

A constructive obligation to restructure arises only when the municipality:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

A contingent liability:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

The related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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

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

Levies

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

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

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

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

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

1.17 Discontinued operations

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

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

1.18 Revenue from exchange transactions

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

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

Measurement

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

1.18 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by 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 municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

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

1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

1.19 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

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

Measurement

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

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

Taxes (Property rates for municipalities)

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

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

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

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

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

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

Transfers

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

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

1.19 Revenue from non-exchange transactions (continued)

Collection charges and penalties

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

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

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

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

1.20 Borrowing costs

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

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

1.21 Service concession arrangements: Grantor

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

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

Accounting Policies

1.21 Service concession arrangements: Grantor (continued)

- is provided by the grantor (municipality) which:
  - is an existing asset of the municipality; or
  - is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

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

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

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

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

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

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

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

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

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of ''allocation'' otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

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

Accounting Policies

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

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

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

1.26 Accumulated surplus

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

1.27 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 38.

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

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

1.28 Grants in aid

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

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

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

1.29 Budget information

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

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

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

Accounting Policies

1.30 Related parties

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

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

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

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

1.31 Events after reporting date

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

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

All amendments to be applied prospectively.

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

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

The impact of the amendment is not material.

GRAP 100 (revised 2013): Discontinued Operations

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

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

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

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

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

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

GRAP 105: Transfers of Functions Between Entities Under Common Control

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 107: Mergers

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

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 20: Related Parties

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

The municipality (in this standard referred to as the reporting entity) applies this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

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

The standard elaborates on the definitions and identification of:

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

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

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 11: Consolidation – Special purpose entities

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

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

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

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

The municipality does not envisage the adoption of the interpretationstandard until such time as it becomes applicable to the municipality's operations.

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

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

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

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

The issues are:

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. These amendments should be applied prospectively for annual financial periods beginning on or after the effective date.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. These amendments should be applied prospectively for annual financial periods beginning on or after the effective date, from date at which the municipality first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. These amendments should when the municipality applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of this amendment is in conjuction with the effective date of GRAP 105, 106 and 107.

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

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

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. These amendments should ben applied for prospectively for annual financial periods beginning on or after the effective date

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

The effective date of this amendment is in conjunction with the effective date of GRAP 105, 106 and 107.

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

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

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

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. These amendments should be prospectively for annual financial periods beginning on or after the effective date

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. These amendments and addition when the municipality applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective dateof this amendment in conjunction with the effective date of GRAP 105, 106 and 107.

The municipality expects to adopt the ammendment in the 2016 annual financial statements

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

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 108: Statutory Receivables

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

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

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

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The expected impact of the directive will result in the investment property to incur a change in accounting policy, which will result in depreciation in the municipality’s annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	4 649 578	4 477 781
Short-term deposits	1 705 852	8 370 239
	6 355 430	**12 848 020**

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for an Eskom electricity deposit for the waste water project in Phahameng.	1 520 000	1 500 000

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
ABSA Bank - Cheque account - 810142227	4 577 650	4 438 175	2 543 746	4 649 578	4 477 781	2 543 746
ABSA Bank - Money market account	1 705 852	1 620 042	1 540 638	1 705 852	1 620 042	1 540 638
Nedbank - 32 day notice account	-	-	22 288	-	-	22 288
FNB - Investment account	-	-	10 000 000	-	-	10 000 000
ABSA Bank - 32 day account	-	113 691	-	-	113 691	-
ABSA Bank - 32 day notice account	-	4 087 093	-	-	4 087 093	-
ABSA - Investment account 9291998227	-	2 549 414	-	-	2 549 414	-
Total	**6 283 502**	**12 808 415**	**14 106 672**	**6 355 430**	**12 848 021**	**14 106 672**

4. Receivables from exchange transactions (for municipalities)

Gross balances		
Electricity	3 226 693	2 320 789
Water	6 679 719	8 133 827
Sewerage	11 516 927	12 273 050
Refuse	7 600 272	8 615 775
Housing rental	1 514 561	1 400 652
	30 538 172	**32 744 093**
Less: Allowance for impairment		
Electricity	(578 248)	(1 507 945)
Water	(6 620 480)	(7 939 011)
Sewerage	(10 867 143)	(12 089 678)
Refuse	(7 383 970)	(8 526 616)
Housing rental	(983 802)	(1 050 331)
	(26 433 643)	**(31 113 581)**

4. Receivables from exchange transactions (for municipalities) (continued)

Figures in Rand	2015	2014
Net balance		
Electricity	2 648 445	812 844
Water	59 239	194 816
Sewerage	649 785	183 372
Refuse	216 303	89 159
Housing rental	530 759	350 321
	4 104 531	**1 630 512**
Electricity		
Current (0 -30 days)	436 587	219 379
31 - 60 days	164 763	251 520
61 - 90 days	199 536	70 112
91 - 120 days	84 736	64 468
121 - 365 days	2 341 071	1 715 310
Impairment	(578 248)	(1 507 945)
	2 648 445	**812 844**
Water		
Current (0 -30 days)	165 073	194 986
31 - 60 days	156 448	169 541
61 - 90 days	146 474	139 526
91 - 120 days	124 102	153 109
121 - 365 days	6 087 622	7 476 665
Impairment	(6 620 480)	(7 939 011)
	59 239	**194 816**
Sewerage		
Current (0 -30 days)	225 642	204 952
31 - 60 days	220 455	200 566
61 - 90 days	220 664	199 174
91 - 120 days	210 515	196 555
121 - 365 days	11 862 185	11 471 803
Impairment	(12 089 676)	(12 089 678)
	649 785	**183 372**
Refuse		
Current (0 -30 days)	148 726	147 868
31 - 60 days	139 754	145 214
61 - 90 days	138 557	143 061
91 - 120 days	136 160	139 441
121 - 365 days	7 037 075	8 040 191
Impairment	(7 383 969)	(8 526 616)
	216 303	**89 159**

Figures in Rand	2015	2014

4. Receivables from exchange transactions (for municipalities) (continued)

Housing rental		
Current (0 -30 days)	5 800	4 294
31 - 60 days	6 107	4 294
61 - 90 days	87 496	61 539
91 - 120 days	5 002	4 613
121 - 365 days	1 413 805	1 325 912
Impairment	(987 451)	(1 050 331)
	530 759	**350 321**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	611 444	738 444
31 - 60 days	568 002	644 907
61 - 90 days	568 864	535 189
91 - 120 days	25 924 307	30 457 409
	27 672 617	**32 375 949**
Industrial/ commercial		
Current (0 -30 days)	417 175	212 359
31 - 60 days	121 186	216 689
61 - 90 days	139 134	117 041
91 - 120 days	10 973 620	9 824 726
	11 651 115	**10 370 815**
National and provincial government		
Current (0 -30 days)	194 000	(61 659)
31 - 60 days	166 505	19 530
61 - 90 days	245 594	63 398
91 - 120 days	4 813 239	253 391
	5 419 338	**274 660**
Total		
Consumer Debtors	44 743 024	43 021 424
	44 743 024	43 021 424
Less: Allowance for impairment	(40 638 494)	(41 390 913)
	4 104 530	**1 630 511**
Ageing of allowance for impairment		
91 - 120 days	(26 433 642)	(31 113 580)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(41 275 499)	(24 887 512)
Contributions to allowance	14 841 857	(6 239 596)
Debt impairment written off against allowance	-	13 528
	(26 433 642)	**(31 113 580)**

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Other receivables from exchange transactions

Eskom deposits	519 495	564 659
Other receivables	571 307	683 460
Allowance for impairment of other receivables	(148 744)	-
	942 058	**1 248 119**

Credit quality of trade and other receivables

The credit quality of trade and other receivables were neither past nor due nor impaired.

6. Receivables from non-exchange transactions

INEP Grant	582 472	-
Property rates	14 201 611	10 277 331
Property rates (impairment)	(10 443 661)	(10 161 919)
	4 340 422	**115 412**

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security.

7. Consumer debtors disclosure

Gross balances		
Rates	14 201 611	10 277 331
Less: Allowance for impairment		
Rates	(10 443 661)	(10 161 919)
Net balance		
Rates	3 757 950	115 412
Rates		
Current (0 -30 days)	437 532	117 666
31 - 60 days	250 966	109 991
61 - 90 days	170 512	102 217
91 - 120 days	159 820	99 726
121 - 365 days	13 182 781	9 847 731
> 365 days	(10 443 661)	(10 161 919)
	3 757 950	**115 412**

8. VAT receivable

VAT	5 493 494	441 318

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

9. Inventories

	2015	2014
Water	8 534	11 738
Fuel (Diesel, Petrol)	193 281	153 082
Electrical	131 848	57 777
Water Equipment	157 097	108 241
Mechanical	49 198	10 351
	539 958	**341 189**

10. Biological assets that form part of an agricultural activity

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets	2 254 313	-	2 254 313	1 184 674	-	1 184 674

Reconciliation of biological assets that form part of an agricultural activity - 2015

	Opening balance	Increase/Decrease due to assets acquired through a non-exchange transaction	Total
Biological assets	1 184 674	1 069 639	2 254 313

Reconciliation of biological assets that form part of an agricultural activity - 2014

	Opening balance	Increase/Decrease due to assets acquired through a non-exchange transaction	Total
Biological assets	1 131 476	53 198	1 184 674

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

10. Biological assets that form part of an agricultural activity (continued)

Non - Financial information

Quantities of each biological asset		
Blesbok	69	55
Oryx	54	48
Kudu	25	20
Lechwe	4	3
Impala	19	20
Red hartebees	15	10
Springbok	239	267
Black Springbok	24	21
Black Wildebees	183	149
Ostrich	8	13
Zebra	12	11
Horse	3	3
	655	**620**

11. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	23 876 000	(354 666)	23 521 334	23 876 000	(177 333)	23 698 667

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	23 698 667	(177 333)	23 521 334

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	23 876 000	(177 333)	23 698 667

Pledged as security

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

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

Notes to the Annual Financial Statements

Figures in Rand

12. 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	24 815 913	(2 239 196)	22 576 717	23 676 734	(1 679 397)	21 997 337
Buildings	104 061 121	(25 150 039)	78 911 082	104 061 121	(21 664 068)	82 397 053
Leasehold property	2 903 332	(2 535 710)	367 622	2 903 332	(2 247 726)	655 606
Furniture and fixtures	2 310 630	(1 237 894)	1 072 736	1 719 358	(1 019 860)	699 498
Infrastructure	350 298 691	(96 553 047)	253 745 644	346 195 116	(82 079 263)	264 115 853
Other property, plant and equipment	12 176 802	(7 091 789)	5 085 013	11 376 703	(6 207 869)	5 168 834
Captial work in progress	51 377 146	-	51 377 146	30 082 627	-	30 082 627
Total	**547 943 635**	**(134 807 675)**	**413 135 960**	**520 014 991**	**(114 898 183)**	**405 116 808**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Total
Land	21 997 338	1 139 179	-	-	(559 800)	22 576 717
Buildings	82 397 053	-	-	-	(3 485 971)	78 911 082
Leasehold property	655 606	-	-	-	(287 985)	367 621
Furniture and fixtures	699 498	591 272	-	-	(218 034)	1 072 736
Infrastructure	264 115 853	-	-	4 103 574	(14 473 783)	253 745 644
Other property, plant and equipment	5 168 833	1 222 976	(169 556)	-	(1 137 241)	5 085 012
Capital work in progress	30 082 627	25 398 093	-	(4 103 574)	-	51 377 146
	405 116 808	**28 351 520**	**(169 556)**	**-**	**(20 162 814)**	**413 135 958**

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	22 575 597	-	(18 460)	-	-	(559 799)	21 997 338
Buildings	81 776 317	-	-	4 224 413	-	(3 603 677)	82 397 053
Leasehold property	966 478	37 857	-	-	-	(348 729)	655 606
Furniture and fixtures	447 276	435 244	-	-	-	(183 022)	699 498
Infrastructure	274 844 212	4 001 152	-	-	-	(14 729 511)	264 115 853
Other property, plant and equipment	5 536 463	757 524	(11 687)	-	-	(1 113 467)	5 168 833
Capital work in progress	8 013 975	28 169 424	-	(4 224 412)	(1 876 360)	-	30 082 627
	394 160 318	**33 401 201**	**(30 147)**	**1**	**(1 876 360)**	**(20 538 205)**	**405 116 808**

Pledged as security

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

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

Assets with zero values - Assets linked to service delivery (Tractor and Trucks):

- National Treasury guidelines indicates that trucks and tractors useful lives are between 5 – 7 years
- Municipality is anticipating to use these trucks and tractors for more than this prescribed 7 years, it is anticipated that the tractors and trucks will be used for period of 15 years from the take on date of 2007 because of the following factors:
- Census 2011 population indicated that the population of Tswelopele decreased by about 18% from 2001 population.
- The Census 2011 result became official in 2012/2013 financial year, and in the following year, MIG and equitable shares of the Municipality were decreased.
- Municipality will not be in a position to dispose of this fleet in the foreseeable future
- Municipality is of the opinion that due to decline in population the current fleet will be maintained to service all the population of Tswelopele.

Figures in Rand	2015	2014

12. Property, plant and equipment (continued)

- The municipality received an opinion from Tractor and Trucks seller, Hinterland and they said that if the tractors and trucks are well maintained, their useful lives maybe be between 7 – 15 years.

13. Other financial assets

	2015	2014
Designated at fair value		
Unlisted shares	971 762	917 100
49 383 shares in Senwes Limited		
75 732 shares held in Senwesbel Limited		
Non-current assets		
Designated at fair value	971 762	917 100

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

14. Payables from exchange transactions

Trade payables	10 896 550	4 258 752
Accrued leave pay	5 421 623	4 688 503
Accrued bonus	1 176 563	983 727
Deposits received	13 100	4 084
Cash suspense account	1 241 858	584 101
Salary control account	2 425 469	-
Retention payables	2 918 438	2 356 341
Debtors with credit balances	-	2 034 460
	24 093 601	**14 909 968**

15. Consumer deposits

Electricity	551 697	223 819
Water	231 765	235 192
	783 462	**459 011**

16. Other financial liabilities

At amortised cost		
Annuity loans	11 237 265	11 852 259
The annuity loans comprise a DBSA loan. The endowmnets are made on a six monthly basis. The last loan will be redeemed on 31 December 2024. The loans carrying interest at 14 % per annum respective.		
Non-current liabilities		
At amortised cost	10 550 466	11 237 529
Current liabilities		
At amortised cost	686 799	614 729

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

17. Finance lease obligation

Minimum lease payments due		
- within one year	143 329	433 345
- in second to fifth year inclusive	74 351	12 450
	217 680	445 795
less: future finance charges	(15 605)	(46 359)
Present value of minimum lease payments	**202 075**	**399 436**

Present value of minimum lease payments due		
- within one year	130 676	387 460
- in second to fifth year inclusive	71 399	11 976
	202 075	**399 436**

Non-current liabilities	71 399	11 977
Current liabilities	130 676	387 460
	202 075	**399 437**

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

The average lease term was 2 years and the average effective borrowing rate was 9% (2014: 9%).

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

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	9 907 057	-
Skills Development Grant	-	117 244
Municipal Systems Improvement Grant	-	1 557 671
Finance Management Grant	-	5 000
	9 907 057	**1 679 915**

See note 27 for reconciliation of grants from National / Provincial Government.

A rollover has been applied for the unspent conditonal grant.

Notes to the Annual Financial Statements

Figures in Rand

19. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation - landfill sites	3 036 909	1 112 213	(236 224)	3 912 898

Reconciliation of provisions - 2014

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation - landfill sites	10 259 078	1 664 124	(8 886 293)	3 036 909

Borrow pits

The provision relates to the estimated future rehabilitation costs relating to two existing open borrow pits in Bultfontein.
The total area of the borrow pits to be rehabilitated is 9 929 square meters.
The expected date of rehabilitation is in 2022 and therefore the expected remaining useful life is estimated at 6 years.
The useful life and expected date of rehabilitation could decrease depending on the extent of material needed for upcoming developments.
The current weighted average cost of borrowings of the municipality is 8.31% and this percentage was used as discount factor in future rehabilitation costs.

Landfill sites

The provision relates to the estimated future rehabilitation costs relating to two existing landfill sites in Bultfontein and Hoopstad respectively.
The expected date of rehabilitation is in 2032 and therefore the expected remaining useful life is estimated at 16 years.
It assumed that the current population growth of the town and therefore the dumping rate will not significantly change over the useful life of the landfill sites.
The current weighted average cost of borrowings of the municipality is 8.31% and this percentage was used as discount factor in future rehabilitation costs.
The evaluation of rehabilitation procedures and costs was performed by NEP Consulting Engineers.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Employee benefit obligations

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

Carrying value		
Post-employement medical aid liability	(6 754 000)	(7 056 000)
Long service awards	(3 140 000)	(3 139 000)
	(9 894 000)	**(10 195 000)**
Non-current liabilities	(7 884 000)	(9 777 000)
Current liabilities	(2 010 000)	(418 000)
	(9 894 000)	**(10 195 000)**

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

Opening balance	3 139 000	3 485 000
Benefits paid	(90 537)	(276 000)
Net expense recognised in the statement of financial performance	91 537	(70 000)
	3 140 000	**3 139 000**

Net expense of the defined benefit obligation recognised in the statement of financial performance

Current service cost	380 000	380 000
Interest cost	254 000	260 000
Actuarial (gains) losses	(542 463)	(710 000)
	91 537	**(70 000)**

Changes in the present value of the long service award obligation are as follows:

Net expense of the long service awards obligation recognised in the statement of financial performance

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield curve	7.96 %
Consumer price inflation	Difference between nominal and real yield curve	6.33 %
Expected increase in salaries	CPI + 1 %	7.33 %
Net effective discount rate	Yield curve based	0.59 %

Figures in Rand	2015	2014

20. Employee benefit obligations (continued)

Other assumptions

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

	20 percentage point increase	20 percentage point decrease
Effect on the aggregate of the service cost and interest cost	717 000	556 056
Effect on defined benefit obligation	7 319 000	6 856 000

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

	2015	2014	2013	2012	2011
Defined benefit obligation	(6 754 000)	(7 056 000)	(6 584 000)	-	-
Surplus (deficit)	54 558	741 552	-	-	-
Long service awards obligation	(3 140 000)	(3 139 000)	(3 485 000)	-	-

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

21. Revenue

	2015	2014
Service charges	35 963 638	33 424 012
Property rates	13 502 050	11 122 728
Government grants and subsidies	93 281 138	97 926 749
Interest received - trading	1 244 465	690 834
Interest received - investment	734 452	1 465 076
Dividends received - investment	40 552	51 104
Rental income	389 725	290 489
Licences and permits	10 200	5 505
Other income - (rollup)	979 008	782 806
Fines, penalties and forfeits	373 800	299 000
	146 519 028	**146 058 303**

The amount included in revenue arising from exchanges of goods or services are as follows:	2015	2014
Service charges	35 963 638	33 424 012
Rental of facilities and equipment	389 725	290 489
Interest received (trading)	1 244 465	690 834
Licences and permits	10 200	5 505
Other income - (rollup)	979 008	782 806
Interest received - investment	734 452	1 465 076
Dividends received	40 552	51 104
	39 362 040	**36 709 826**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

21. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	13 502 050	11 122 728
Transfer revenue		
Government grants and subsidies	93 281 138	97 926 749
Fines, penalties and forfeits	373 800	299 000
	107 156 988	**109 348 477**

22. Service charges

Sale of electricity	22 098 768	20 148 203
Sale of water	4 220 151	4 538 711
Sewerage and sanitation charges	5 782 434	5 231 017
Refuse removal	3 862 285	3 506 081
	35 963 638	**33 424 012**

23. Rental income

Facilities and equipment		
Rental of facilities	370 844	281 399
Rental of equipment	18 881	9 090
	389 725	**290 489**

24. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	40 552	51 104
Interest revenue		
ABSA - Call Account	194 580	67 805
Interest call account	511 853	1 381 948
Interest received - other	28 020	15 323
	734 453	**1 465 076**
	775 005	**1 516 180**

25. Other income

Insurance revenue	42 112	51 438
Donations	20 570	-
Commission received	101 441	91 442
Sundry income	128 715	99 249
Grave fees	174 611	160 673
Connection fees	131 173	218 814
Gravel sales	109 691	14 304
Building plan fees	16 625	20 321
Late payment penalty	244 674	122 124
Special meter reading	9 398	4 440
	979 010	**782 805**

Included in sundry income is private calls, rate certificates, sale of tender documents, photo copies and lost books.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Property rates

Rates received

Property rates	13 502 050	11 122 728

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies

Equitable share	62 071 000	61 909 000
Municipal Infrastruture Grant	23 795 942	28 808 999
Municipal Systems Improvement Grant	934 000	890 000
Financial Management Grant	1 800 000	1 650 000
Free State Provincial Grant	1 557 671	3 442 330
INEP Grant	582 472	-
District Municipality Grant	50 000	50 000
EPWP Goverment Grant (operating)	1 223 000	1 042 030
Sports and recreation grant	893 563	72 867
Skills development grant	373 490	61 523
	93 281 138	**97 926 749**

Equitable Share

The municipality received R 62 071 000 as Equitable Share in 2014/2015 year. In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastruture Grant

Current - year receipts	33 703 000	28 809 000
Conditions met - transferred to revenue	(23 795 943)	(28 809 000)
	9 907 057	**-**

The municipality has applied for a roll over for the unspent portion of the grant

Municipal Systems Improvement Grant

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

Skills Development Grant

Balance unspent at beginning of year	117 244	-
Current - year receipts	256 246	178 768
Conditions met - transferred to revenue	(373 490)	(61 524)
	-	**117 244**

Financial Management Grant

Current - year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 650 000)
	-	**-**

EPWP Govement Grant

Current - year receipts	1 223 000	1 042 030

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(1 223 000)	(1 042 030)
	-	-

Free State Grant

Balance unspent at beginning of year	1 557 671	-
Current - year receipts	-	5 000 000
Conditions met - transferred to revenue	(1 557 671)	(3 442 329)
	-	**1 557 671**

Sports and recreation grant

Current - year receipts	893 563	72 867
Conditions met - transferred to revenue	(893 563)	(72 867)
	-	-

Lejweleputswa District Grant

Current - year receipts	50 000	50 000
Conditions met - transferred to revenue	(50 000)	(50 000)
	-	-

28. Employee related costs

Basic	32 635 903	27 456 219
Medical aid - company contributions	3 328 347	2 321 185
UIF	320 228	283 725
SDL	445 209	382 375
Leave pay provision charge	2 795 466	2 830 395
Other short term costs	19 507	16 751
Defined contribution plans	5 771 707	4 893 582
Travel, motor car, accommodation, subsistence and other allowances	3 403 271	3 027 745
Overtime payments	2 477 475	3 157 249
Long-service awards	-	380 000
Housing benefits and allowances	13 359	14 783
Cellphone Allowance	221 010	101 937
Standby Allowance	912 667	-
	52 344 149	**44 865 946**

Remuneration of TL Mkhwane (Municipal Manager)

Annual remuneration	956 722	902 643
Car allowance	101 947	101 947
Contributions to UIF, medical and pension funds	230 763	352 226
Other bonuses	79 700	55 500
Other	77 039	-
	1 446 171	**1 412 316**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

28. Employee related costs (continued)

Remuneration of SS Rabanye (Director Corporate Services)

	2015	2014
Annual remuneration	647 226	626 839
Car allowance	99 249	99 249
Contributions to UIF, medical and pension funds	169 333	363 002
Other bonuses	53 995	50 200
Other	19 707	-
	989 510	**1 139 290**

Remuneration of NL Moletsane (Chief Financial Officer)

	2015	2014
Annual remuneration	804 463	744 585
Car allowance	119 995	119 995
Contributions to UIF, medical and pension funds	45 345	171 278
Other	82 769	-
	1 052 572	**1 035 858**

Remuneration of BP Dikoko (Director technical services)

	2015	2014
Annual remuneration	662 029	642 172
Car allowance	77 571	77 571
Contributions to UIF, medical and pension funds	175 202	232 528
Other bonuses	55 000	38 550
Other	29 703	-
	999 505	**990 821**

Remuneration ZK Tindleni (Director community services)

	2015	2014
Annual remuneration	646 339	627 121
Car allowance	101 164	100 812
Contributions to UIF, medical and pension funds	168 394	242 201
Other bonuses	53 906	37 688
Other	62 105	-
	1 031 908	**1 007 822**

29. Remuneration of councillors

	2015	2014
Medical Aid	229 993	201 492
Councillors	3 686 670	3 496 345
Contributions to pension and medical aid	493 663	477 499
Defined benefit plan: Service costs	30 761	-
	4 441 087	**4 175 336**

In-kind benefits

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

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

29. Remuneration of councillors (continued)

2015	Annual remuneration	Travel allowance	Medical Aid	Pension	Cell and data	Total
Mayor-M.E. Mathibe	559 703	-	29 104	83 956	24 468	697 231
Speaker- T.A. Matlakala	445 372	-	26 032	66 806	24 468	562 678
Part time EXCO Member-P.P. Moalosi	217 109	-	27 840	32 566	24 468	301 983
Part time EXCO Member-C. Horn	224 538	-	19 296	33 681	24 468	301 983
Part-time Chairperson Sec 79 committee- T.T.Taedi	225 229	-	-	33 784	24 468	283 481
Part time Councillor - M.B. Baleni	157 138	-	21 120	23 571	24 468	226 297
Part time Councillor - E.C. Joubert	175 503	-	-	26 325	24 468	226 296
Part time Councillor- K.R. Phukuntsi	150 668	28 560	-	22 600	24 468	226 296
Part time Councillor-B.P. Eseu	175 503	-	-	26 325	24 468	226 296
Part time Councillor-M.J. Taljaard	160 003	-	17 826	24 000	24 468	226 297
Part time Councillor - M.J. Ngeke	175 503	-	-	26 325	24 468	226 296
Part time Councillor - D.A. Njodina	158 161	-	19 944	23 724	24 468	226 297
Part time Councillor - M.M. Snyer	159 531	-	18 368	23 929	24 468	226 296
Part time Councillor - M.W. Raseu	151 612	-	27 474	22 741	24 468	226 295
Part time Councillor- M.S. Bonokwane	155 514	-	22 988	23 327	24 468	226 297
	3 291 087	**28 560**	**229 992**	**493 660**	**367 020**	**4 410 319**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

30. Provision for debt impairmnt

Allowance for impairment - receivables from exchange	(4 679 938)	16 532 694
Allowance for impairment - other receivables	763 207	-
Bad debts written off	6 671 411	-
	2 754 680	**16 532 694**

31. Depreciation and amortisation

Property, plant and equipment	20 063 597	19 853 382

32. Finance costs

Non-current borrowings	1 393 113	1 957 023
Finance leases	2 102	120 379
Unwinding costs on provisions	588 810	1 949 197
	1 984 025	**4 026 599**

33. Bulk purchases

Electricity	28 806 520	26 562 699
Water	3 217 844	2 726 215
	32 024 364	**29 288 914**

Electricity losses 2014/2015
Losses are currently calculated at 13.8 %.

Water losses 2014/2015
Losses are currently calculated at 28.7%

Electricity lossess 2013/2014
Losses were calculated at 10%

Water losses 2013/2014
Losses were calculated at 23%

34. Contracted services

Operating leases	22 988	34 268

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

35. General expenses

Audit committe	102 279	-
Advertising	297 747	359 664
Auditors remuneration	3 153 936	2 574 623
Bank charges	255 355	245 466
Cleaning	93 619	60 477
Computer expenses	353 628	550 007
Consulting and professional fees	658 927	853 951
Consumables	12 470	3 485
Entertainment	205 879	134 654
Insurance	456 742	401 724
Community development and training	96 128	154 410
Fuel and oil	1 862 473	1 936 097
Printing and stationery	1 847 331	1 055 949
Protective clothing	326 225	189 664
Royalties and license fees	441 838	254 019
Development of Environmental Management Plan	175 472	-
Security (Guarding of municipal property)	-	21 292
Software expenses	6 569	1 956
Subscriptions and membership fees	1 672 982	1 130 545
Telephone and fax	635 107	857 311
Training	2 293 891	578 442
Travel - local	718 254	786 087
Radio and television licenses	1 060	1 193
Vehicle Licences	88 326	74 878
Valuation costs	-	267 544
Sewerage assessment (Green Drop)	42 711	114 285
Operating grant expenditure	5 448 424	4 795 278
Water quality assessment (Blue Drop)	356 683	26 000
Internal audit expense	554 463	273 595
Other expenses	7 303 622	7 398 082
	29 462 141	**25 100 678**

In other expenses is: free basic services (R3 649 940), purification costs (R 1 826 832) and other general expenses.

36. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L	54 661	19 919

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

37. Cash generated from operations

	2015	2014
Deficit	(2 764 193)	(2 259 472)
Adjustments for:		
Depreciation and amortisation	20 063 597	19 853 382
Gain on sale of assets and liabilities	555 151	11 878
Gain on biological assets	(1 069 639)	(53 198)
Fair value adjustments	(54 661)	(19 919)
Finance costs - Finance leases	2 102	120 379
Debt impairment	2 754 679	16 532 694
Movements in retirement benefit assets and liabilities	(301 000)	126 000
Movements in provisions	875 989	1 664 124
Changes in working capital:		
Inventories	(198 769)	(121 460)
Other receivables from exchange transactions	306 059	(439 350)
Receivables from exchange transactions (for municipalities)	(5 488 293)	(8 816 805)
Receivables from non-exchange transactions	(4 807 483)	2 291 400
Payables from exchange transactions	9 183 635	3 726 775
VAT	(5 052 176)	312 492
Unspent conditional grants and receipts	8 227 143	1 679 915
Consumer deposits	324 451	(79 243)
	22 556 592	**34 529 592**

38. Commitments

Authorised capital expenditure

	2015	2014
Already contracted for but not provided for		
• Property, plant and equipment	11 000 801	29 892 885
Total capital commitments		
Already contracted for but not provided for	11 000 801	29 892 885

Authorised operational expenditure

	2015	2014
Already contracted for but not provided for		
• Operational contracts	5 032 587	2 449 508
• Operational - orders	577 725	504 540
	5 610 312	**2 954 048**
Total operational commitments		
Already contracted for but not provided for	5 610 312	2 954 048

Total commitments

	2015	2014
Total commitments		
Authorised capital expenditure	11 000 801	29 892 885
Authorised operational expenditure	5 610 312	2 954 048
	16 611 113	**32 846 933**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

39. Contingent Liabilities

The municipality has the following contigent liabilities for the 2014/2015 financial year:
The municipality is currently in dispute with Department of Water Affairs (DWA) over the amount charged for the provision of water to the Municipality by DWA, DWA says that the Municipality is owing them R 5 028 977, however, the Municipality is disputing this amount on the basis that the quantity of water that DWA say it has supplied to the Municipality exceeds the capacity of Municipality's dams and that from November 2008 the Municipality's water was officially supplied by Sandvet water Users Associations however Municipality was still getting invoices from DWA subsequent to November 2008.

The South African Post office (SAPO) has laid a compliant with Complaints and Compliance Committee of Independent Communications Authority of South Africa (ICASA), that the Municipality through its employees or other workers has delivered post which is registered to be delivered by the SAPO only, and in terms of section 17H of the ICASA act, read with Section 4(3)(p) of ICASA act 2000 amended in 2014, the maximum fine is R 5 million for providing a service without being registered.
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40. Related parties

Relationships

Councillor C Horn is currently leasing 2 land facilities from the municipality for R 4940.70 and R 1 760.60 (Bi-annually) - camp 4 and camp 9.
Brother of Mr Dikoko (director technical services) provided public announcement system for R1 300.

41. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards. All changes resulting form the application of these Standards of GRAP were accounted for retrospectively.

- Change 1
  Investment property's method of accounting was changed from fair value model to cost model. This was done in terms of Directive 11.

Statement of financial position

	2015	2014
Statement of Financial Position		
Investment property - depreciation	(795 867)	-
Statement of Financial Performance		
Depreciation	795 867	-

42. Prior period errors

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

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

Refer to note 41 for details on changes in accounting policy.

Refer to note for details on comparative figures.

Notes to the Annual Financial Statements

42. Prior period errors (continued)

Statement of Financial Performance for the year ended 2015	Balance as previously reported	Prior period error	Reclassified	Restated balance
Revenue				
Service charges	33 424 012	-	-	33 424 012
Rental income	290 489	-	-	290 489
Interest received - trading	690 834	-	-	690 834
Interest received - investment	1 465 076	-	-	1 465 076
Licences and permits (exchange)	5 505	-	-	5 505
Dividends received	51 104	-	-	51 104
Other exchange revenue	669 593	113 213	-	782 806
Property rates	11 122 728	-	-	11 122 728
Government grants and subisidies	97 926 749	-	-	97 926 749
Fines, penalties and forfeits	299 000	-	-	299 000
Total revenue	145 945 090	113 213	-	146 058 303
Expenditure				
Employee related costs	(44 865 947)	-	-	(44 865 947)
Remuneration of councillors	(4 175 336)	-	-	(4 175 336)
Debt impairment	(16 532 694)	-	-	(16 532 694)
Depreciation and amortisation	(20 156 927)	303 545	-	(19 853 382)
Finance costs	(4 026 599)	-	-	(4 026 599)
Repairs and maintenance	(4 501 199)	-	-	(4 501 199)
Bulk purchases	(32 030 315)	-	2 741 399	(29 288 916)
Contracted services	(34 268)	-	-	(34 268)
Loss on disposal of assets	(11 878)	-	-	(11 878)
General expenses	(22 298 222)	(61 056)	(2 741 399)	(25 100 677)
Total expenditure	(148 633 385)	242 489	-	(148 390 896)
Gain/(loss) on biological assets and agricultural produce	53 198	-	-	53 198
Actuarial gains/(losses)	19 919	-	-	19 919
Surplus / (deficit) for the year	73 117	-	-	73 117

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

42. Prior period errors (continued)

Statement of Financial Position as at 2014	Balance as previously reported	Prior period error	Reclassified	Restated balance
Assets				
Current Assets				
Cash and cash equivalents	12 848 020	-	-	12 848 020
Receivables from exchange transactions	1 630 512	-	-	1 630 512
Other receivables from exchange transactions	1 097 960	150 159	-	1 248 119
Receivables from non-exchange transactions	115 412	-	-	115 412
VAT receivable	519 663	(78 345)	-	441 318
Inventories	369 860	(28 671)	-	341 189
Total current assets	16 581 427	43 143	-	16 624 570
Non-current Assets				
Biological assets	1 184 674	-	-	1 184 674
Investment property	23 876 000	(177 332)	-	23 698 668
Property, plant and equipment	366 116 781	39 000 027	-	405 116 808
Other financial assets	917 100	-	-	917 100
Total non-current assets	392 094 555	38 822 695	-	430 917 250
Liabilities				
Current Liabilities				
Payables from exchange transactions	15 455 899	(545 932)	-	14 909 967
Consumer deposits	572 224	(113 213)	-	459 011
Other financial liabilities	614 729	-	-	614 729
Finance lease obligation	387 460	-	-	387 460
Unspent conditional grants and receipts	1 679 915	-	-	1 679 915
Employee benefit obligation	418 000	-	-	418 000
Total current liabilities	19 128 227	(659 145)	-	18 469 082
Non-current Liabilities				
Other financial liabilities	11 237 529	-	-	11 237 529
Finance lease obligation	11 977	-	-	11 977
Employee benefit obligation	9 777 000	-	-	9 777 000
Provisions	11 923 202	(8 886 293)	-	3 036 909
Total non-current liabilities	11 923 202	(8 886 293)	-	3 036 909
Net Assets				
Accumulated surplus - Opening balance	356 598 047	47 795 048	-	404 393 095
Total net assets	356 598 047	47 795 048	-	404 393 095

1. Correction of WIP - Hoopstad waste water treament Works

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

42. Prior period errors (continued)

Property plant and equipment understated	-	1 907 134
Trade payables understated	-	(1 907 134)
	-	-

Prior year error relates a correction of work in progress Hoopstad for the waste water treatment works 2013/14

2 Correction WIP - Hopstad 1.5 km paved road

Property plant and equipment understated	-	217 657
Trade payables understated	-	(217 657)
	-	-

Prior year error relates a correction of work in progress Hoopstad for the 1.5 km paved road 2013/14

3. Recognition of retention for land audit 2013/2014

General expenses understated	-	26 739
Trade payables understated	-	(26 739)
	-	-

Prior year error related to the recognition of retention for land audit 2013/14

4. Recognition of retention for land 2013/14

General expenses understated	-	34 320
Trade payables understated	-	(34 320)
	-	-

Prior year error related to the recognition of retention for land audit 2013/14.

5. Missallocation of connection fees

Overstatment of trade payable	-	113 213
Understatement of other income	-	(113 213)
	-	-

5. Missallocation amounts receited on connection fees under creditor instead of connection fees under income water and electricity.

6. Fixed assets corrections

Overstatement of PPE	-	4 001 151
Overstatement of WIP	-	(4 001 151)
	-	-

6. The prior year error was due to WIP was not transfered to completed asset in 2012/2013 financial year

7.Correction of Bulk Purchases

Overstatement of Bulk Purachases	-	(2 741 399)

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
42. Prior period errors (continued)		
Understatement of other expenditure	-	2 741 399
	-	**-**

7.The prior error was due to other expenditure for free basic services being recorded wrofully recored in Bulk purchases

8. Correction of Inventory		
Overstatement of Inventory	-	(28 671)
understatement of accumilated surplus	-	28 671
	-	**-**

8 Correction of overstatement of inventory

9. Receivables from Exchange transactions		
Understatement of receivables	-	150 159
overstatement of accumilated surplus	-	(150 159)
	-	**-**

9. Correction of understatement of debtors

10.Correction of Payables		
Overstatment of Paybles	-	2 528 977
Understatement of Accumilated surplus	-	(2 528 977)
	-	**-**

10 Correction of overstatement of payables (DWA).

11. Correction Of Vat		
Overstatement of VAT	-	(78 345)
Understatment of Accumilated Surplus	-	78 345
	-	**-**

11. Correction of Vat incorrectly recored in the prior year

12. Correction of Deprecation		
Overstatement of investment property	-	(177 332)
Understatment of Depreciation	-	177 332
	-	**-**

12. Correction of prior year deprecation for investment property.

13 Correction of Provisions		
Overstatement of Provisons	-	8 886 293
Understatment of Provisions	-	(8 886 293)
	-	**-**

43. Risk management

Financial risk management

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.

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	2 008 119	2 008 119	6 024 357	9 036 536
Trade and other payables	14 090 967	-	-	-
Finance Lease Obligation	130 676	71 399	-	-
	-	-	-	-

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years

Credit risk

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

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

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

Market risk

Interest rate risk

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

Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Fixed interest loan on DBSA loans	11.90 %	686 799	1 373 598	2 060 397	2 747 196	4 369 274

44. Going concern

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

The municipality's current assets exceed its current liabilities and has accumulated surplusses of R370 157 352.

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

45. Unauthorised expenditure

Opening balance	2 023 000	241 104
Unauthorised expenditure incurred	5 849 822	1 781 896
Less: Amount written off	(2 838 907)	-
	5 033 915	**2 023 000**

Unauthorised expenditure of R 1 781 896 (2013 / 2014) was written off by council on the 27 August 2014

Unauthorised expenditure of R 1 057 011 (2014 / 2015) was written off by council on the 31 August 2015.
No unauthorised expenditure was considered recoverable as there were no parties who were found to have acted negligently.

46. Fruitless and wasteful expenditure

Opening balance	27 730	-
Fruitless and wasteful expenditure incurred-current year	120 782	27 730
less: Amounts written off by Council	(116 623)	-
	31 889	**27 730**

Fruitless and wasteful expenditure of R27 730 (2013/14) was written off by Council on the 27 August 2014. Only R88 893 out of R120 782 (2014/15) was written off by Council on the 31 August 2015. An amount of R31 890 was considered recoverable from the relevant parties

47. Irregular expenditure

Opening balance	4 193 489	2 672 537
Add: Irregular expenditure - current year	9 423 995	1 520 952
Less: Amounts written off	(8 654 346)	-
	4 963 138	**4 193 489**

The opening balance of irregualr expenditure is still under investigation due to the municipality not having appiled the correct principle of the PPPFA.

Details of irregular expenditure written off

	Written off by council	
Irregular expenditure written off	Irregular expenditure amounting to R 8 654 346 was written off by council on 31 August 2015.	(8 654 346)

48. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	3 065 235	2 574 623
Amount paid - current year	(3 065 235)	(2 574 623)
	-	-

PAYE and UIF

Current year subscription / fee	7 013 327	5 960 620
Amount paid - current year	(7 013 327)	(5 960 620)
	-	-

Figures in Rand	2015	2014

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

Pension and medical aid deductions

Current year subscription / fee	9 452 240	8 147 621
Amount paid - current year	(9 452 240)	(8 147 621)
	-	-

VAT

VAT receivable	5 493 494	441 318

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days	Outstanding more than 90 days	Total
Taedi TT	235	3 519	3 754
Horn, C	6 691	45 195	51 886
	6 926	**48 714**	**55 640**

30 June 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total
Matlakala, TA	214	2 306	2 520
Horn, C	5 870	32 635	38 505
Taedi,TT	214	4 041	4 255
	6 298	**38 982**	**45 280**

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be written off by Council. The expenses incurred as listed hereunder have been written off.

Emergency		
48	1 524 074	-
Deviations		
6	550 501	-
Strip and quote		
28	949 090	-
	3 023 665	**-**

49. Budget differences

Material differences between budget and actual amounts

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

49. Budget differences (continued)

Property rates - The material difference between budgeted and actual was due to the budgeted amounts were under budgeted due to the percentage in the previous financial statements.

Service chargers - The material increase in service chargers was due to an increase in electricity due to a high demand of electricity

Other income - The material variance was due to land was bugeted at 1 million and the sale agreement was not concluded before the filnalisation of the budget

Bulk purchases- The material increase in bulk purchases was due to an increase in demand for electricity.

Employee cost - The material variance was due to post employment benefits and accured bonuses were not budgeted for.