Phumelela Local Municipality
Financial statements
for the year ended June 30, 2015

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipali services and maintaining the best interests of the local community
Executive Committee	
Mayor	Cllr TJ Motaung
	Cllr MD Kobeni
	Cllr DA Wessels
Councillors	Cllr TR Zwane (Speaker)
	Cllr SE Tshabalala
	Cllr JM Mofokeng
	Cllr DM Nkabinde
	Cllr OA Mokoena
	Cllr OS Tshabalala
	Cllr JM Ngwenya Sithebe
	Cllr SM Zwane
	Cllr AD Radebe
	Cllr TE Radebe
	Cllr LM Msimanga
	Cllr TN Masiteng
Grading of local authority	Low Capacity (Grade 2)
Accounting Officer	Mr BW Kannemeyer
Chief Finance Officer (CFO)	Mr SA Nyapholi
Registered office	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Corner Prinsloo and Kuhn Streeets Vrede 9835
Postal address	Private Bag X5 Vrede 9835
Bankers	ABSA Bank (Pty) Ltd (Primary Account) First National Bank
Auditors	Auditor-General South Africa
Attorneys	Ntsoane Attorneys

Index

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

Index	Page
Accounting Officer's Responsibilities and Approval	5
Audit Committee Report	6
Accounting Officer's Report	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Statement of Comparison of Budget and Actual Amounts	12 - 16
Appropriation Statement	17 - 20
Accounting Policies	21 - 49
Notes to the Financial Statements	50 - 71

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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 June 30, 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 are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The financial statements set out on page 8 to 71, which have been prepared on the going concern basis, were approved by the accounting officer on 5 February 2016 and were signed on its behalf by:

Accounting Officer
Designation

Audit Committee Report

The audit committee's report will be included after the issuing of the audit report.

Accounting Officer's Report

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

1. Incorporation

The municipality was incorporated on March 01, 1900 and obtained its certificate to commence business on the same day.

2. Review of activities

Main business and operations

The municipality is engaged in providing municipali services and maintaining the best interests of the local community and operates principally in the Free State Province of South Africa

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

3. Going concern

The 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 accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in 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.

4. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that require additional disclosure in the financial statements.

5. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts.

6. Accounting policies

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

7. Accounting Officer

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

Name	Nationality
Mr B.W. Kannemeyer	South African

8. Bankers

ABSA Bank - Primary

First National Bank

9. Auditors

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

Statement of Financial Position as at June 30, 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Total Assets		**567,730,651**	**528,421,378**
Liabilities			
Total Liabilities		**128,781,282**	**114,494,149**
Net Assets		**438,949,369**	**413,927,229**

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
Revenue			
Revenue from exchange transactions			
Sale of goods	1.18	110,842	112,194
Service charges	21	30,540,348	26,656,131
Rental of facilities and equipment		765,472	990,831
Interest received (trading)		9,257,509	6,506,525
Licences and permits		16,750	16,995
Sundry revenue		4,199,097	607,651
Interest received - investment		473,924	545,847
Total revenue from exchange transactions		**45,363,942**	**35,436,174**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	11,081,796	7,799,030
Transfer revenue			
Government grants & subsidies		105,904,442	108,034,694
Fines, Penalties and Forfeits		64,810	64,404
Total revenue from non-exchange transactions		**117,051,048**	**115,898,128**
Total revenue	20	**162,414,990**	**151,334,302**
Expenditure			
Employee related costs	25	(49,410,267)	(46,865,431)
Remuneration of councillors	26	(4,486,945)	(4,540,889)
Administration		-	(600)
Depreciation and amortisation	27	(19,225,199)	(18,325,217)
Finance costs	28	(4,716,210)	(1,598,444)
Debt Impairment	29	2,246,385	(21,783,711)
Collection costs		(90,601)	-
Repairs and maintenance		(11,722,768)	(8,181,069)
Bulk purchases	30	(20,928,984)	(18,164,469)
Contracted services	31	(10,441,921)	(9,148,108)
General Expenses	32	(23,856,490)	(17,766,860)
Total expenditure		**(142,633,000)**	**(146,374,798)**
Operating surplus	34	**19,781,990**	**4,959,504**
Surplus for the year		**19,781,990**	**4,959,504**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2013	**408,967,721**	**408,967,721**
Changes in net assets		
Surplus for the year	4,959,504	4,959,504
Total changes	4,959,504	4,959,504
Balance at July 01, 2014	**419,167,379**	**419,167,379**
Changes in net assets		
Surplus for the year	19,781,990	19,781,990
Total changes	19,781,990	19,781,990
Balance at June 30, 2015	**438,949,369**	**438,949,369**

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Sale of goods and services		20,365,254	19,395,480
Grants		105,904,442	110,414,798
Interest income		473,924	545,847
Other receipts		-	1,071,030
		126,743,620	131,427,155
Payments			
Employee costs		(53,870,810)	(52,513,413)
Suppliers		(52,899,961)	(19,248,305)
Finance costs		(4,716,210)	(2,861,584)
		(111,486,981)	(74,623,302)
Net cash flows from operating activities	35	**15,256,639**	**56,803,853**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(47,903,393)	(49,938,821)
Proceeds from sale of property, plant and equipment	3	20,555,380	-
Proceeds from sale of financial assets		3,815	43,083
Net cash flows from investing activities		**(27,344,198)**	**(49,895,738)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1,520,424)	(806,518)
Finance lease payments		78,906	(440,998)
Other cash item		-	43,642
Net cash flows from financing activities		**(1,441,518)**	**(1,203,874)**
Net increase/(decrease) in cash and cash equivalents		**(13,529,077)**	**5,704,241**
Cash and cash equivalents at the beginning of the year		4,458,957	(1,245,284)
Cash and cash equivalents at the end of the year	13	**(9,070,120)**	**4,458,957**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	-	-	**-**	110,842	**110,842**	
Service charges	33,277,000	(3,595,000)	**29,682,000**	30,540,348	**858,348**	
Rental of facilities and equipment	1,393,000	(102,000)	**1,291,000**	765,472	**(525,528)**	
Interest received (trading)	574,000	9,282,000	**9,856,000**	9,257,509	**(598,491)**	
Licences and permits	23,000	-	**23,000**	16,750	**(6,250)**	
Other income	3,204,000	(2,361,000)	**843,000**	4,199,097	**3,356,097**	
Interest received - investment	543,000	(311,000)	**232,000**	473,924	**241,924**	
Total revenue from exchange transactions	**39,014,000**	**2,913,000**	**41,927,000**	**45,363,942**	**3,436,942**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7,886,000	(84,000)	**7,802,000**	11,081,796	**3,279,796**	
Transfer revenue						
Government grants & subsidies	63,099,000	(833,000)	**62,266,000**	105,904,442	**43,638,442**	
Fines, Penalties and Forfeits	67,000	(1,000)	**66,000**	64,810	**(1,190)**	
Total revenue from non-exchange transactions	**71,052,000**	**(918,000)**	**70,134,000**	**117,051,048**	**46,917,048**	
Total revenue	**110,066,000**	**1,995,000**	**112,061,000**	**162,414,990**	**50,353,990**	
Expenditure						
Personnel	(51,529,000)	2,708,000	**(48,821,000)**	(49,410,267)	**(589,267)**	
Remuneration of councillors	(5,190,000)	567,000	**(4,623,000)**	(4,486,945)	**136,055**	
Depreciation and amortisation	-	-	**-**	(19,225,199)	**(19,225,199)**	
Finance costs	(208,000)	(1,292,000)	**(1,500,000)**	(4,716,210)	**(3,216,210)**	
Bad debts written off	-	-	**-**	2,246,385	**2,246,385**	
Collection costs	-	-	**-**	(90,601)	**(90,601)**	
Repairs and maintenance	-	-	**-**	(11,722,768)	**(11,722,768)**	
Bulk purchases	(15,619,000)	(2,087,000)	**(17,706,000)**	(20,928,984)	**(3,222,984)**	
Contracted Services	(4,200,000)	13,000	**(4,187,000)**	(10,441,921)	**(6,254,921)**	
General Expenses	(30,375,000)	(4,658,000)	**(35,033,000)**	(23,856,490)	**11,176,510**	
Total expenditure	**(107,121,000)**	**(4,749,000)**	**(111,870,000)**	**(142,633,000)**	**(30,763,000)**	
Surplus before taxation	**2,945,000**	**(2,754,000)**	**191,000**	**19,781,990**	**19,590,990**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**2,945,000**	**(2,754,000)**	**191,000**	**19,781,990**	**19,590,990**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	20,233,000	-	**20,233,000**	2,027,844	**(18,205,156)**	
Receivables from exchange transactions	-	-	**-**	2,366,186	**2,366,186**	
Receivables from non-exchange transactions	-	-	**-**	3,092,172	**3,092,172**	
VAT receivable	-	-	**-**	1,184,228	**1,184,228**	
Consumer debtors	16,582,000	-	**16,582,000**	28,771,051	**12,189,051**	
Cash and cash equivalents	(4,142,000)	-	**(4,142,000)**	2,195,236	**6,337,236**	
	32,673,000	**-**	**32,673,000**	**39,636,717**	**6,963,717**	
Non-Current Assets						
Investment property	-	-	**-**	18,080,539	**18,080,539**	
Property, plant and equipment	897,986,000	(22,500,000)	**875,486,000**	509,460,913	**(366,025,087)**	
Intangible assets	-	-	**-**	47,694	**47,694**	
Heritage assets	-	-	**-**	2,010	**2,010**	
	897,986,000	**(22,500,000)**	**875,486,000**	**527,591,156**	**(347,894,844)**	
Total Assets	**930,659,000**	**(22,500,000)**	**908,159,000**	**567,227,873**	**(340,931,127)**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	**-**	207,539	**207,539**	
Finance lease obligation	-	-	**-**	1,222,963	**1,222,963**	
Payables from exchange transactions	-	-	**-**	97,095,780	**97,095,780**	
Consumer deposits	548,000	-	**548,000**	241,721	**(306,279)**	
Bank overdraft	-	-	**-**	11,249,664	**11,249,664**	
	548,000	**-**	**548,000**	**110,017,667**	**109,469,667**	
Non-Current Liabilities						
Other financial liabilities	-	-	**-**	914,262	**914,262**	
Unspent conditional grants and receipts	-	-	**-**	313,220	**313,220**	
Provisions	20,295,000	-	**20,295,000**	17,536,133	**(2,758,867)**	
Short term borrowings	1,833,000	-	**1,833,000**	-	**(1,833,000)**	
Long-Term Borrowings	9,962,000	-	**9,962,000**	-	**(9,962,000)**	
	32,090,000	**-**	**32,090,000**	**18,763,615**	**(13,326,385)**	
Total Liabilities	**32,638,000**	**-**	**32,638,000**	**128,781,282**	**96,143,282**	
Net Assets	**898,021,000**	**(22,500,000)**	**875,521,000**	**438,446,591**	**(437,074,409)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Fair value adjustment assets-available-for-sale reserve	1,000	-	**1,000**	(484,399)	**(485,399)**	
Accumulated surplus	898,020,000	(22,500,000)	**875,520,000**	438,930,990	**(436,589,010)**	
Total Net Assets	**898,021,000**	**(22,500,000)**	**875,521,000**	**438,446,591**	**(437,074,409)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	39,014,000	(1,415,000)	**37,599,000**	-	**(37,599,000)**	
Grants	130,105,000	(20,833,000)	**109,272,000**	-	**(109,272,000)**	
Interest income	1,117,000	-	**1,117,000**	-	**(1,117,000)**	
	170,236,000	**(22,248,000)**	**147,988,000**	**-**	**(147,988,000)**	
Payments						
Employee costs	(48,821,000)	-	**(48,821,000)**	-	**48,821,000**	
Suppliers	(58,092,000)	-	**(58,092,000)**	-	**58,092,000**	
Finance costs	(208,000)	-	**(208,000)**	-	**208,000**	
	(107,121,000)	**-**	**(107,121,000)**	**-**	**107,121,000**	
Net cash flows from operating activities	**63,115,000**	**(22,248,000)**	**40,867,000**	**-**	**(40,867,000)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(70,746,000)	22,500,000	**(48,246,000)**	-	**48,246,000**	
Net increase/(decrease) in cash and cash equivalents	(7,631,000)	252,000	**(7,379,000)**	-	**7,379,000**	
Cash and cash equivalents at the end of the year	**(7,631,000)**	**252,000**	**(7,379,000)**	**-**	**7,379,000**	

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Financial Statements for the year ended June 30, 2015

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	7,886,000	(84,000)	7,802,000	-		7,802,000	11,081,796		3,279,796	142 %	141 %
Service charges	33,277,000	(3,595,000)	29,682,000	-		29,682,000	30,540,348		858,348	103 %	92 %
Investment revenue	1,117,000	8,970,000	10,087,000	-		10,087,000	473,924		(9,613,076)	5 %	42 %
Transfers recognised - operational	63,099,000	(833,000)	62,266,000	-		62,266,000	61,226,000		(1,040,000)	98 %	97 %
Other own revenue	4,507,000	(2,464,000)	2,043,000	-		2,043,000	14,414,480		12,371,480	706 %	320 %
Total revenue (excluding capital transfers and contributions)	**109,886,000**	**1,994,000**	**111,880,000**	**-**		**111,880,000**	**117,736,548**		**5,856,548**	**105 %**	**107 %**
Employee costs	(51,529,000)	2,708,000	(48,821,000)	-	-	(48,821,000)	(49,410,267)	-	(589,267)	101 %	96 %
Remuneration of councillors	(5,190,000)	567,000	(4,623,000)	-	-	(4,623,000)	(4,486,945)	-	136,055	97 %	86 %
Debt impairment	-	-	-			-	2,246,385	-	2,246,385	DIV/0 %	DIV/0 %
Depreciation and asset impairment	-	-	-			-	(19,225,199)	-	(19,225,199)	DIV/0 %	DIV/0 %
Finance charges	(208,000)	(1,292,000)	(1,500,000)	-	-	(1,500,000)	(4,716,210)	-	(3,216,210)	314 %	2,267 %
Materials and bulk purchases	(15,619,000)	(2,087,000)	(17,706,000)	-	-	(17,706,000)	(20,928,984)	-	(3,222,984)	118 %	134 %
Other expenditure	(34,575,000)	(4,645,000)	(39,220,000)	-	-	(39,220,000)	(46,111,780)	-	(6,891,780)	118 %	133 %
Total expenditure	**(107,121,000)**	**(4,749,000)**	**(111,870,000)**	**-**	**-**	**(111,870,000)**	**(142,633,000)**	**-**	**(30,763,000)**	**127 %**	**133 %**
Surplus/(Deficit)	**2,765,000**	**(2,755,000)**	**10,000**	**-**		**10,000**	**(24,896,452)**		**(24,906,452)**	**248,965)%**	**(900)%**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	44,678,442		44,678,442	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**2,765,000**	**(2,755,000)**	**10,000**	**-**		**10,000**	**19,781,990**		**19,771,990**	**197,820 %**	**715 %**
Surplus/(Deficit) for the year	**2,765,000**	**(2,755,000)**	**10,000**	**-**		**10,000**	**19,781,990**		**19,771,990**	**197,820 %**	**715 %**
Capital expenditure and funds sources											
Total capital expenditure	-	-	-	-		-	(5,384,443)		(5,384,443)	DIV/0 %	DIV/0 %
Cash flows											
Net cash from (used) operating	63,115,000	(22,248,000)	40,867,000	-		40,867,000	15,256,639		(25,610,361)	37 %	24 %
Net cash from (used) investing	(70,746,000)	22,500,000	(48,246,000)	-		(48,246,000)	(27,344,198)		20,901,802	57 %	39 %
Net cash from (used) financing	-	-	-	-		-	(1,441,518)		(1,441,518)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**(7,631,000)**	**252,000**	**(7,379,000)**	**-**		**(7,379,000)**	**(13,529,077)**		**(6,150,077)**	**183 %**	**177 %**
Cash and cash equivalents at the beginning of the year	1,600,000	-	1,600,000	-		1,600,000	4,458,957		2,858,957	279 %	279 %
Cash and cash equivalents at year end	**(6,031,000)**	**252,000**	**(5,779,000)**	**-**		**(5,779,000)**	**(9,070,120)**		**3,291,120**	**157 %**	**150 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2014				
Financial Performance				
Property rates				7,799,030
Service charges				26,656,131
Investment revenue				545,847
Transfers recognised - operational				59,289,984
Other own revenue				8,298,600
Total revenue (excluding capital transfers and contributions)				**102,589,592**
Employee costs	-	-	-	(46,865,431)
Remuneration of councillors	-	-	-	(4,540,889)
Debt impairment	-	-	-	(21,783,711)
Depreciation and asset impairment	-	-	-	(18,325,217)
Finance charges	-	-	-	(1,598,444)
Materials and bulk purchases	-	-	-	(18,164,469)
Other expenditure	-	-	-	(35,096,637)
Total expenditure	**-**	**-**	**-**	**(146,374,798)**
Surplus/(Deficit)				**(43,785,206)**
Transfers recognised - capital				48,744,710
Surplus (Deficit) after capital transfers and contributions				**4,959,504**
Surplus/(Deficit) for the year				**4,959,504**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				56,803,853
Net cash from (used) investing				(49,895,738)
Net cash from (used) financing				(1,203,874)
Net increase/(decrease) in cash and cash equivalents				**5,704,241**
Cash and cash equivalents at year end				**5,704,241**

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

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 17 - Provisions.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

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

Allowance for doubtful debts

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

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

1.4 Investment property (continued)

Fair value

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

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

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

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

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

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 period.

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

Item	**Depreciation method**	**Average useful life**
Land	Indefinite	Indefinite
Buildings	Straight line	15 to 50 years
Furniture and fixtures	Straight line	5 to 10 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 years
Computer software	Straight line	3 years
Infrastructure	Straight line	-
- Electricity	Straight line	15 to 50 years
- Roads	Straight line	30 years
- Water	Straight line	20 years
- Sewerage	Straight line	12 to 50 years

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

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

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

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

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

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

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

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

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

1.6 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	3 years

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Accounting Policies

1.7 Heritage assets (continued)

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.8 Financial instruments

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

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

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

1.8 Financial instruments (continued)

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

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipalitity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

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

1.8 Financial instruments (continued)

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
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial liabilities	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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 muncipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

The municpality 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.

Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.9 Leases

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

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

Finance leases - lessee

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

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

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

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

Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

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

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

1.11 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.

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

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

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

Identification

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

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

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

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.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

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.

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

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

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

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

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

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

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

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

Identification

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

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

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

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 assets 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 would 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.

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

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.

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

Reversal of an impairment loss

The municipality assess 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.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

1.14 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 rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.14 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 deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 1.14&37.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

1.14 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

1.16 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

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

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

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

1.17 Revenue from non-exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

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

Fines

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

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

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government grants

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

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

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

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

Other grants and donations

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

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

1.18 Turnover

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

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Comparative figures

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

1.22 Unauthorised expenditure

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

Accounting Policies

1.22 Unauthorised expenditure (continued)

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

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

1.25 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2014 to 6/30/2015.

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

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

1.27 Related parties

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

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

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

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

1.28 Events after reporting date

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

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

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

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

1.29 Value Added Tax

Revenue, expenses and assets are recognsised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the Financial Statements

Figures in Rand	2015	2014

2. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	20,895,811	(2,815,272)	18,080,539	20,895,811	(2,815,272)	18,080,539

Reconciliation of investment property - 2015

	Opening balance	**Total**
Investment property	18,080,539	18,080,539

Reconciliation of investment property - 2014

	Opening balance	**Total**
Investment property	18,080,539	18,080,539

Pledged as security

Carrying value of assets pledged as security:

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3. 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	51,149,455	(59,259)	51,090,196	49,526,492	(59,259)	49,467,233
Buildings	49,835,491	(17,556,657)	32,278,834	68,959,681	(15,336,162)	53,623,519
Furniture and fixtures	4,801,261	(4,076,328)	724,933	4,665,451	(4,076,328)	589,123
Motor vehicles	4,316,540	-	4,316,540	4,316,540	-	4,316,540
Office equipment	9,634,103	(2,426,798)	7,207,305	9,567,637	(2,426,798)	7,140,839
IT equipment	2,437,697	(68,696)	2,369,001	2,421,218	(68,696)	2,352,522
Roads Infrastructure	197,718,908	(46,845,092)	150,873,816	169,637,851	(45,471,840)	124,166,011
Community	749,218	-	749,218	749,218	-	749,218
Electricity Infrastructure	9,685,984	(7,675,957)	2,010,027	4,089,069	(1,114,066)	2,975,003
Work In Progress	41,469,057	-	41,469,057	31,122,507	-	31,122,507
Wastewater network	79,560,026	(14,388,057)	65,171,969	72,714,895	(12,119,334)	60,595,561
Water network	179,424,256	(30,067,806)	149,356,450	178,518,458	(24,402,893)	154,115,565
Landfill Sites	12,580,521	(10,736,954)	1,843,567	12,580,521	(7,680,521)	4,900,000
Total	**643,362,517**	**(133,901,604)**	**509,460,913**	**608,869,538**	**(112,755,897)**	**496,113,641**

Notes to the Financial Statements

Figures in Rand	2015	2014

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Other changes, movements	Total
Land	49,467,233	1,622,963	-	-	51,090,196
Buildings	53,623,519	-	(17,498,947)	(3,845,738)	32,278,834
Furniture and fixtures	589,123	135,810	-	-	724,933
Motor vehicles	4,316,540	-	-	-	4,316,540
Office equipment	7,140,839	66,466	-	-	7,207,305
IT equipment	2,352,522	16,479	-	-	2,369,001
Infrastructure	124,166,011	26,707,805	-	-	150,873,816
Community	749,218	-	-	-	749,218
Electricity infrastructure	2,975,003	2,116,759	-	(3,081,735)	2,010,027
Work In Progress	31,122,507	10,346,550	-	-	41,469,057
Wastewater network	60,595,561	4,576,408	-	-	65,171,969
Water network	154,115,565	-	-	(4,759,115)	149,356,450
Landfill Sites	4,900,000	-	(3,056,433)	-	1,843,567
	496,113,641	**45,589,240**	**(20,555,380)**	**(11,686,588)**	**509,460,913**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Total
Land	49,011,338	455,895	49,467,233
Buildings	36,124,572	17,498,947	53,623,519
Furniture and fixtures	589,123	-	589,123
Motor vehicles	4,316,540	-	4,316,540
Office equipment	7,140,839	-	7,140,839
IT equipment	2,265,138	87,384	2,352,522
Infrastructure	113,570,882	10,595,129	124,166,011
Community	749,218	-	749,218
Electricity Infrastructure	2,972,147	2,856	2,975,003
Work In Progress	31,122,507	-	31,122,507
Wastewater network	57,626,370	2,969,191	60,595,561
Water network	96,669,443	57,446,122	154,115,565
Landfill Sites	2,079,867	2,820,133	4,900,000
	404,237,984	**91,875,657**	**496,113,641**

Clarity on land and buildings.

Some of the houses in Thembalihle, Zamani and Ezenzeleni are build on what is regarded as Municipal land as the title deeds still belong to the Phumelela Municipality. Provincial Treasury and CoGTA are currently assisting the municipality to transfer to the relevant owners. Also note that the office buildings in Vrede, Memel and Warden are not yet proclaimed and therefore they do not have ERF numbers.

Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life

Notes to the Financial Statements

Figures in Rand	2015	2014

3. Property, plant and equipment (continued)

Land	Straight line	Indefinite
Buildings	Straight line	15 to 50 years
Furniture and fixtures	Straight line	5 to 10 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 years
Computer software	Straight line	3 years
- Electricity	Straight line	15 to 50 years
- Roads	Straight line	30 years
- Water	Straight line	20 years
- Sewerage	Straight line	12 to 50 years

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.

4. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	149,070	(101,376)	47,694	149,070	(101,376)	47,694

Reconciliation of intangible assets - 2015

	Opening balance	**Total**
Computer software, other	47,694	47,694

Reconciliation of intangible assets - 2014

	Opening balance	**Total**
Computer software, other	47,694	47,694

Pledged as security

Carrying value of intangible assets pledged as security:

None of the assets have been pledged as security

5. Other financial assets

Designated at fair value		
VKB Shares	487,086	490,901
Terms and conditions		
Non-current assets		
Designated at fair value	487,086	490,901

Notes to the Financial Statements

Figures in Rand	2015	2014

5. Other financial assets (continued)

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

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

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

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

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

Level 2		
VKB Agricultural Limited	487,086	490,901

6. Employee benefit obligations

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to the Pension Fund Act exist for this purpose. The majority of employees belong to three benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation was dated 30 June 2015.

Post retirement medical aid plan

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(5,835,000)	(6,332,000)
Present value of the defined benefit obligation-partly or wholly funded	(3,353,000)	(3,334,000)
Employee post retirement cost provision	9,188,000	9,666,000
	-	-

The fair value of plan assets includes:

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

Opening balance	(6,332,000)	(6,360,000)
Benefits paid	279,000	260,000
Net expense recognised in the statement of financial performance	218,000	(232,000)
	(5,835,000)	**(6,332,000)**

Net expense recognised in the statement of financial performance

Current service cost	(266,000)	(324,000)
Interest cost	(566,000)	(505,000)
Actuarial (gains) losses	1,050,000	597,000
	218,000	**(232,000)**

Notes to the Financial Statements

Figures in Rand	2015	2014

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.36 %	8.94 %
Consumer Inflation rate	7.52 %	7.05 %
Medical Aid Contribution Inflation	8.52 %	8.05 %
Net Effective Rate	0.77 %	0.82 %

The discount rate was set as the yield of the R209 South African Government bond as at the valuation date.

Spouses and Dependents
We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasingthe mortality rates by 20%. The effect is as follows:

We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical Inflation rate	Valuation Assumption	+1% Medical aid inflation
Total Accrued Liability	5,459,000	5,835,000	6,156,000
Interest Cost	497,000	532,000	562,000
Service Cost	228,000	248,000	264,000

7. Inventories

Consumable stores	1,975,031	577,683
Water	52,813	34,638
	2,027,844	**612,321**

Inventories are carried at cost	2,009,669	612,321

8. Receivables from exchange transactions

Trade debtors	2,283,163	2,606,734
Deposits	83,023	35,163
	2,366,186	**2,641,897**

9. Receivables from non-exchange transactions

Consumer debtors - Rates	3,092,172	335,547

Notes to the Financial Statements

Figures in Rand	2015	2014

9. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired.

The ageing of amounts is as follows:

Current (0 - 30 days)	671,432	215,942
31 - 60 days	278,103	116,717
61 - 90 days	213,529	106,461
> 90 days	14,632,144	14,104,148
Provision for debt impairment	(14,407,073)	(14,151,606)
Total	1,388,135	391,622

10. VAT receivable

VAT	1,184,228	3,205,059

11. Consumer debtors

Gross balances		
Electricity	3,998,910	4,238,731
Water	34,229,239	26,623,052
Sewerage	38,431,830	30,181,221
Refuse	40,134,808	32,213,356
Business service levies	2,926,123	2,612,471
	119,720,910	**95,868,831**
Less: Allowance for impairment		
Electricity	(2,821,608)	(3,047,366)
Water	(25,631,912)	(25,956,182)
Sewerage	(29,267,705)	(29,742,862)
Refuse	(30,360,740)	(32,122,224)
Business service levies	73,921	45,086
	(88,008,044)	**(90,823,548)**
Net balance		
Electricity	1,177,302	1,191,365
Water	8,597,327	666,870
Sewerage	9,164,125	438,359
Refuse	9,774,068	91,132
Business service levies	73,921	45,086
	28,786,743	**2,432,812**
Included in above is receivables from exchange transactions		
Electricity	3,935,587	4,238,731
Water	33,948,958	26,623,052
Sewerage	38,451,648	30,181,221
Refuse	40,185,901	32,213,356
Business service levies	18,166,256	2,596,970
	134,688,350	**95,853,330**
Net balance	**134,688,350**	**95,853,330**

Figures in Rand	2015	2014

11. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	294,406	366,557
31 - 60 days	83,503	376,677
61 - 90 days	57,129	246,309
91 - 120 days	44,794	201,822
121 - 365 days	697,470	-
	1,177,302	**1,191,365**
Water		
Current (0 -30 days)	726,588	139,636
31 - 60 days	551,110	40,492
61 - 90 days	544,600	41,502
91 - 120 days	539,107	47,256
121 - 365 days	6,235,922	397,984
	8,597,327	**666,870**
Sewerage		
Current (0 -30 days)	715,327	132,092
31 - 60 days	609,020	46,327
61 - 90 days	586,172	29,290
91 - 120 days	579,442	23,373
121 - 365 days	6,674,164	207,277
	9,164,125	**438,359**
Refuse		
Current (0 -30 days)	712,765	(2,087)
31 - 60 days	603,622	10,672
61 - 90 days	588,411	6,627
91 - 120 days	581,181	5,262
121 - 365 days	7,288,089	70,658
	9,774,068	**91,132**
Business service levies		
Current (0 -30 days)	671,390	1,993,286
31 - 60 days	278,062	2,113,987
61 - 90 days	213,487	1,366,663
91 - 120 days	224,733	1,541,627
121 - 365 days	(1,313,751)	(6,970,477)
	73,921	**45,086**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(91,174,722)	(75,509,559)
Contributions to allowance	240,555	(17,105,239)
Debt impairment written off against allowance	-	1,440,076
Reversal of allowance	-	(2,261,297)
	(90,934,167)	**(93,436,019)**

Consumer debtors pledged as security

None of the consumer debtors were pledged as security.

Figures in Rand	2015	2014

12. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	17,499,245	14,487,153
Less: Allowance for impairment		
Consumer debtors - Rates	(14,407,073)	(14,151,606)
Net balance		
Consumer debtors - Rates	3,092,172	335,547

Rates		
Current (0 -30 days)	671,432	215,942
31 - 60 days	278,103	119,605
61 - 90 days	213,529	-
91 - 120 days	146,321	-
121 - 365 days	1,782,787	-
	3,092,172	**335,547**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	79,821	64,129
Bank balances	-	4,394,828
Short-term deposits	2,115,415	-
Bank overdraft	(11,249,664)	-
	(9,054,428)	**4,458,957**
Current assets	2,195,236	4,458,957
Current liabilities	(11,249,664)	-
	(9,054,428)	**4,458,957**
	-	-

There were no specific restriction conditions that are outside the normal operations of the bank as defined by the MFMA. The reflected overdraft position is not an actual overdraft but rather a book entry. This is as a result of unreceipted deposits which the municipality is still in the process of identifying who made the deposits. The mapping of negative GL bank balances automatically discribes it as an overdraft.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2015	**June 30, 2014**	**June 30, 2013**	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
ABSA Bank - Current Account	347,415	1,635,392	878,150	(11,430,050)	1,485,338	(1,953,055)
ABSA - Grants Call Account	45,244	2,844,307	577,675	45,244	2,844,307	577,675
ABSA Bank - Call Account	9,453	9,008	4,661	9,453	9,008	4,661
First National Bank - 7 Day Interest Plus	-	4,481	4,481	-	4,481	4,481
First National Bank - Current Account	117,394	51,694	100,906	117,394	51,694	100,906
Total	**519,506**	**4,544,882**	**1,565,873**	**(11,257,959)**	**4,394,828**	**(1,265,332)**

Notes to the Financial Statements

Figures in Rand	2015	2014

14. Finance lease obligation

Minimum lease payments due		
- within one year	310,020	533,005
- in second to fifth year inclusive	-	310,020
	310,020	843,025
less: future finance charges	-	(60,536)
Present value of minimum lease payments	**310,020**	**782,489**

Present value of minimum lease payments due		
- within one year	310,020	480,664
- in second to fifth year inclusive	-	301,825
	310,020	**782,489**

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 9% (2014: 9%).

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

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

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant	-	467,203
DWA - Accelerated Community Infrastructure Programme Grant	-	2,411,573
COGTA - Water Treatment Plant Warden	313,220	313,220
Expanded Public Works Programme Grant	-	364,813
	313,220	**3,556,809**

Movement during the year

Balance at the beginning of the year	3,556,809	906,705
Additions during the year	105,904,441	110,684,798
Income recognition during the year	(109,148,030)	(108,034,694)
	313,220	**3,556,809**

See note 24 for reconciliation of grants from National/Provincial Government.

Notes to the Financial Statements

Figures in Rand	2015	2014

16. Other financial liabilities

	2015	2014
Designated at fair value		
DBSA Loan - 11193	772,927	917,750
20 yeaar loan, interest rate 17%, redemption date 30 September 2019		
DBSA Loan - 10349	121,214	177,177
20 year loan, interest rate 12%, redemption date 31 March 2017		
DBSA Loan 12325	15,666	44,276
30 year loan, interest rate 12.6%, redemption date 31 December 2015		
DBSA Loan 12324	8,579	24,175
30 year loan, interest rate 13.45%, redemption date 31 December 2015		
ABSA term loan	(926,824)	(393,993)
5 year loan, interest rate 10.60%, final payment 31 October 2017		
Other financial liability 1	1,130,239	1,872,840
Terms and conditions		
	1,121,801	**2,642,225**

	2015	2014
Non-current liabilities		
Designated at fair value	914,262	2,454,539
Current liabilities		
Designated at fair value	207,539	187,686

17. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	7,115,134	567,323	-	665,676	8,348,133
Employee benefit cost	9,666,000	-	(478,000)	-	9,188,000
	16,781,134	**567,323**	**(478,000)**	**665,676**	**17,536,133**

Environmental rehabilitation provision

There are three existing waste disposal sites, one in each town of Vrede, Memel and Warden. The sites have to be closed due to them being unsuitable sites for waste disposal. A provision has been recognised to account for the closure cost estimate for the sites in question.

The lifespan of the sites and the estimated closing dates are as follows:.

Vrede - life span of 12 years, estimated closing date is 2014. Althogh this was estimated to be closed in 2014, the municipality still uses it as the licenced site is to be established when the funds are available.
Memel - life span of 8 years, estimated closing date is 2015. The municipality is in the process of licencing a landfill site in Memel.
Warden - estimated closing date is 2015. Although this is estimated to be closed in 2015, the municipality will continue to use it as the licenced site is to be established when the funds are available.

Notes to the Financial Statements

Figures in Rand	2015	2014

18. Payables from exchange transactions

Trade payables	77,786,990	27,166,207
Salary control	4,964,907	3,063,007
Unallocated deposits	13,153,628	18,052,552
Hall deposits	57,456	53,039
Sundry payables	1,132,799	2,257,151
DWA payables	-	38,369,540
Debtors with credit balances	-	1,175,054
	97,095,780	**90,136,550**

19. Consumer deposits

Rates	241,721	233,374

20. Revenue

Sale of goods	110,842	112,194
Service charges	30,540,348	26,656,131
Rental of facilities and equipment	765,472	990,831
Interest received (trading)	9,257,509	6,506,525
Licences and permits	16,750	16,995
Other income	4,199,097	607,651
Interest received - investment	473,924	545,847
Property rates	11,081,796	7,799,030
Government grants & subsidies	105,904,442	108,034,694
Fines, Penalties and Forfeits	64,810	64,404
	162,414,990	**151,334,302**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	110,842	112,194
Service charges	30,540,348	26,656,131
Rental of facilities and equipment	765,472	990,831
Interest received (trading)	9,257,509	6,506,525
Licences and permits	16,750	16,995
Other income	4,199,097	607,651
Interest received - investment	473,924	545,847
	45,363,942	**35,436,174**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11,081,796	7,799,030
Transfer revenue		
Government grants & subsidies	105,904,442	108,034,694
Fines, Penalties and Forfeits	64,810	64,404
	117,051,048	**115,898,128**

Notes to the Financial Statements

Figures in Rand	2015	2014

21. Service charges

Sewerage Charges	7,606,246	7,032,048
Sale of electricity	7,507,765	7,062,392
Sale of water	7,890,607	5,692,286
Service Charge	-	266
Refuse removal	7,535,730	6,869,139
	30,540,348	**26,656,131**

22. Other revenue

Other Income	4,199,097	607,651

23. Property rates

Rates received

Residential	11,081,796	7,799,030

Valuations

Residential	1,213,457,400	-
Commercial	112,706,000	-
State	69,354,000	-
Municipal	6,524,000	-
Small holdings and farms	6,166,982,913	-
Institutional and Other	173,249,671	-
	7,742,273,984	**-**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied to property valuations to determine assessment rates. Rebates of R45000 is granted to residential and state property owners.

Notes to the Financial Statements

Figures in Rand	2015	2014

24. Government grants and subsidies

Operating grants		
Equitable share	57,492,000	56,312,000
Financial Management Grant	1,800,000	1,650,000
Municipal Systems Improvement Grant	934,000	422,797
Expanded Public Works Programme	1,000,000	635,187
Thabo Mofutsanyana Grant	-	270,000
	61,226,000	**59,289,984**
Capital grants		
Municipal Infrastructure Grant	20,796,000	25,277,000
Integrated National Electrification Grant	8,000,000	593,485
Dept of Water & Sanitation (RBIG & ACIP)	15,882,442	22,874,225
	44,678,442	**48,744,710**
	105,904,442	**108,034,694**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	48,412,442	51,129,209
Unconditional grants received	57,492,000	56,905,485
	105,904,442	**108,034,694**

Equitable Share

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

Municipal Systems Improvement Grant

Balance unspent at beginning of year	467,203	-
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(422,797)
Amount reverted to Treasury	(467,203)	-
	-	**467,203**

To assist municipalities to perfrom their functions and stabilize institutional and governance systems as required in the Municipal Systems Act and related legislation.

Accelerated Community Infrastructure Grant

Balance unspent at beginning of year	2,411,573	-
Current-year receipts	6,838,427	2,411,573
Conditions met - transferred to revenue	(9,250,000)	-
	-	**2,411,573**

Acceleration of the bucket eradication programmes in municipalities.

Municipal Infrastructure Grant

Current-year receipts	20,796,000	25,277,000
Conditions met - transferred to revenue	(20,796,000)	(25,277,000)

Notes to the Financial Statements

Figures in Rand	2015	2014

24. Government grants and subsidies (continued)

	-	-

COGTA - Water Treatment Plant Warden

Balance unspent at beginning of year	313,220	313,220

Conditions still to be met - remain liabilities (see note 15).

.

Expanded Public Works Programme Grant

Balance unspent at beginning of year	364,813	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(635,187)
Amount reverted to treasury	(364,813)	-
	-	**364,813**

Integrated National Electrification Grant

Current-year receipts	8,000,000	593,485
Conditions met - transferred to revenue	(8,000,000)	(593,485)
	-	-

Provide explanations of conditions still to be met and other relevant information.

Financial Management Grant

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

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

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DWA

Current-year receipts	6,632,442	-
Conditions met - transferred to revenue	(6,632,442)	-
	-	-

Figures in Rand	2015	2014

25. Employee related costs

Basic	30,449,950	26,341,580
Bonus	2,507,497	3,752,816
Medical aid - employer contributions	630,449	1,197,456
UIF	347,095	324,321
SDL	406,433	373,640
Entertainment allowance	23,466	42,117
Leave pay provision charge	-	(927,931)
Other short term costs	349	1,306
Defined contribution plans	4,855,753	4,619,621
Overtime payments	2,743,324	2,651,024
Long-service awards	19,000	-
Acting allowances	816,950	421,423
Car allowance	1,663,730	1,517,206
Housing benefits and allowances	39,252	33,447
Standby Allowance	257,956	246,469
Life Insurance Contribution	597,922	6,195
Occupational allowance	304,376	318,662
	45,663,502	**40,919,352**

Remuneration of Municipal Manager - BW Kannemeyer

Annual Remuneration	776,478	811,783
Car Allowance	517,656	431,380
Contributions to UIF, Medical and Pension Funds	13,772	13,430
Other	203,343	130,394
	1,511,249	**1,386,987**

Remuneration of former Chief Financial Officer - SA Nyapholi

Annual Remuneration	617,386	582,565
Car Allowance	180,000	132,150
Performance Bonuses	-	48,285
Contributions to UIF, Medical and Pension Funds	109,809	115,424
Other	165,222	239,213
	1,072,417	**1,117,637**

Remuneration of Director Corporate Services - NF Malatjie

Annual Remuneration	477,979	571,569
Car Allowance	315,000	337,136
Contributions to UIF, Medical and Pension Funds	114,072	80,075
Other	131,373	101,508
	1,038,424	**1,090,288**

Remuneration of former Director Technical Services - NB Thobela

Annual Remuneration	82,628	572,592
Car Allowance	-	314,708
Contributions to UIF, Medical and Pension Funds	933	53,482
Other	14,714	299,133

Figures in Rand	2015	2014

25. Employee related costs (continued)

	98,275	**1,239,915**

Remuneration of Former CFO - TM Moremi

Annual Remuneration	-	304,525
Car Allowance	-	193,938
Contributions to UIF, Medical and Pension Funds	-	71,870
Other	-	243,622
	-	**813,955**

26. Remuneration of councillors

Mayor	685,124	677,493
Speaker	412,300	377,974
Councillors	3,389,521	3,485,422
	4,486,945	**4,540,889**

Concillors' remuneration

The remuneration of councillors' allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

27. Depreciation and amortisation

Property, plant and equipment	19,225,199	17,741,002
Investment property	-	584,215
	19,225,199	**18,325,217**

28. Finance costs

Non-current borrowings	-	89,233
Trade and other payables	4,716,210	1,509,211
	4,716,210	**1,598,444**

29. Debt impairment

Contributions to debt impairment provision	(2,246,385)	21,783,711

30. Bulk purchases

Electricity	18,904,150	16,976,242
Water	2,024,834	1,188,227
	20,928,984	**18,164,469**

Notes to the Financial Statements

Figures in Rand	2015	2014

31. Contracted services

Operating Leases	302,353	64,171
Specialist Services	6,664,824	5,129,476
Other Contractors	3,474,744	3,954,461
	10,441,921	**9,148,108**

32. General expenses

Advertising	257,928	157,294
Auditors remuneration	3,499,844	3,028,544
Bank charges	261,684	249,014
Consulting and professional fees	631,203	1,928
Consumables	(1,183,571)	304,215
Entertainment	26,604	30,849
Hire	1,206,973	1,887,781
Insurance	1,011,131	645,269
Community development and training	541,350	371,826
Horticulture	-	111
Magazines, books and periodicals	-	8,598
Medical expenses	271,648	255,036
Fuel and oil	1,302,291	1,084,380
Postage and courier	200,891	57,034
Printing and stationery	626,951	814,418
Protective clothing	485,783	124,548
Telephone and fax	2,359,315	1,710,417
Training	168,225	44,608
Travel - local	2,501,326	2,497,770
Refuse	135,880	71,200
Operational grant expenditure	4,656,020	2,018,084
Vehicle licensing	15,195	24,275
Social investment expenditure	36,176	-
Chemicals	1,228,409	1,495,372
Other expenses	3,615,234	884,289
	23,856,490	**17,766,860**

33. Auditors' remuneration

Fees	3,499,844	3,028,544

34. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Depreciation on property, plant and equipment	19,225,199	17,741,002
Depreciation on investment property	-	584,215
Employee costs	53,897,212	51,406,320

Notes to the Financial Statements

Figures in Rand	2015	2014

35. Cash generated from operations

Surplus	19,781,990	4,959,504
Adjustments for:		
Depreciation and amortisation	19,225,199	17,198,043
Debt impairment	(2,246,385)	21,783,711
Movements in retirement benefit assets and liabilities	-	1,469,000
Movements in provisions	754,999	567,322
Other non-cash items	-	(1,914,720)
Changes in working capital:		
Inventories	(1,415,523)	80,691
Receivables from exchange transactions	275,711	(352,081)
Consumer debtors	(24,107,546)	(25,272,043)
Other receivables from non-exchange transactions	(2,756,625)	3,582,574
Payables from exchange transactions	6,959,230	34,578,435
VAT	2,020,831	(2,525,793)
Unspent conditional grants and receipts	(3,243,589)	2,650,104
Consumer deposits	8,347	(894)
	15,256,639	**56,803,853**

36. Commitments

Authorised capital expenditure

Already contracted for		
• Property, plant and equipment	5,195,048	4,267,585

Total capital commitments		
Already contracted for	5,195,048	4,267,585

Total commitments

Total commitments		
Authorised capital expenditure	5,195,048	4,267,585

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.

37. Contingencies

There are no contigent liabilities for the year.

Notes to the Financial Statements

Figures in Rand	2015	2014

38. Related parties

Relationships

Close family member of a finance Personnel	Marlise Houman

There were no transactions with related parties in the year.

Related party transactions

Purchases from (sales to) related parties		
Mantsa Tlala cc	-	2,400
Compensation to accounting officer and other key management		
Short-term employee benefits	1,258,347	1,670,108
Defined contribution plans	1,292,256	986,709
	2,550,603	**2,656,817**

39. Comparative figures

Certain comparative figures have been reclassified.

40. 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.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.
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41. Going concern

The 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.

Management considers this basis appropriate. Municipalities are established in terms of Municipal Structures Act and form part of the three spheres of government. The mandate of the municipality is to provide basic services to the community and it is for that reason that municipalities receive conditional and unconditional grants from the national and provincial government to fulfill its mandate. Where the municipality encounters serious financial challenges and encounters problems in meeting its financial obligations, the municipality must immediately notify the MEC's for Finance and CoGTA, as well as Salga in the province in terms of section135(3)a-c of the MFMA.

42. Events after the reporting date

There were no reportable events after the reporting date.

Notes to the Financial Statements

Figures in Rand	2015	2014

43. Unauthorised expenditure

Opening Balance	117,406,290	68,854,329
Movement	15,083,579	48,551,961
	132,489,869	**117,406,290**

44. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	1,118,380	1,059,423
Movement	1,571,430	58,957
	2,689,810	**1,118,380**

45. Irregular expenditure

Opening balance	129,748,421	123,971,570
Add: Irregular Expenditure - current year	3,199,863	5,776,851
	132,948,284	**129,748,421**

Analysis of expenditure awaiting condonation per age classification

Current year	3,199,863	5,776,851
Prior years	129,748,421	123,971,570
	132,948,284	**129,748,421**

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	580,690	468,000
Amount paid - current year	(580,690)	(468,000)
	-	**-**

Audit fees

Opening balance	14,687	-
Current year subscription / fee	3,989,822	3,028,544
Amount paid - current year	(3,852,240)	(3,013,857)
	152,269	**14,687**

PAYE and UIF

Current year subscription / fee	5,296,704	5,161,383
Amount paid - current year	(5,296,704)	(5,161,383)
	-	**-**

Notes to the Financial Statements

Figures in Rand	2015	2014

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

Pension and Medical Aid Deductions

	2015	2014
Current year subscription / fee	9,308,651	9,018,141
Amount paid - current year	(9,308,651)	(9,018,141)
	-	-

VAT

	2015	2014
VAT receivable	1,184,228	3,205,059

All VAT returns (except 3 months) 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 June 30, 2015:

June 30, 2015	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
AD Radebe	787	3,275	4,062
TE Radebe	417	31	448
	1,204	**3,306**	**4,510**

June 30, 2014	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
TE Radebe	753	-	753
AD Radebe	374	2,994	3,368
	1,127	**2,994**	**4,121**

June 30, 2015	**Highest outstanding amount**	**Aging (in days)**
AD Radebe	4,062	90
TE Radebe	448	90
	4,510	**180**

June 30, 2014	**Highest outstanding amount**	**Aging (in days)**
AD Radebe	2,994	180
TE Radebe	753	-
	3,747	**180**

Notes to the Financial Statements

Figures in Rand	2015	2014

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

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 approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	2015	2014
Urgent repairs at water and sewer plants - Water Solutions Southern Africa	-	9,250,000
Emergency repairs of the water pump station in Vrede - Ndalama Armature Winders CC	-	82,069
Emergency repairs to borehole to boost water supply - Blue Seal Engineering	-	24,795
Emergency repairs to Thembalihle sewer pump - Blue Seal Engineering	-	90,664
Repairs to Vrede waste water treatment plant - Blue Seal Engineering	-	108,357
Repairs of the water pump station and network in Vrede - Refilwe Tsholofelo Construction	-	25,700
Emergency repairs to sewer Ezenzeleni - Mandla Siyabonga Trading Enterprise	32,500	-
Emergency repair to pumps at Memel-Zamani Water Treatment Works - Blue Seal Engineering CC	26,220	-
Emergency repair to sewer pump in Thembalihle - Melokuhle Management	64,310	-
Emergency repair to electric motor in Warden - Ezenzeleni	41,587	-
	164,617	**9,581,585**

47. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget was due to low provisions recognised in the budget.

Changes from the approved budget to the final budget

There are differences between the approved budget and the final budget hence an adjustment budget was approved by council.