Phokwane Municipality
(Registration number NC094)
Annual financial statements
for the year ended 30 June 2015

General Information

Nature of business and principal activities	Phokwane Municipality is a local municipality performing the functions as set out in the Constitution (Act 108 of 1996).
Members of Council	
Mayor	TTSR Tsikwe - Appointed on 01 March 2015
	VD Khen - Resignedon 01 February 2015
Councillors	GK Mokale (Ward 1)
	MF Mojapele (Ward 2)
	FFO Pitso (Ward 3)
	AS Mokoena (Ward 4)
	D Meza (Ward 5)
	PJ Nel (Ward 6)
	CJS Adams (Ward 7)
	HM Modiakgotla (Ward 8)
	M Chakane (Ward 9)
	S Lewis (Proportional)
	KD Mashorie (Proportional)
	D Meyer (Proportional)
	DM Moeketsi (Proportional)
	P Mona (Proportional)
	AO Moremong (Proportional)
	GM Motebe (Proportional)
	S Nkomo (Proportional)
Grading of local authority	2
Chief Finance Officer (CFO)	TP Sediti
Accounting Officers	BS Lenkoe
Registered office	24 Hertzog Street Hartswater 8570
Postal address	Private Bag X3 Hartswater 8570
Bankers	The Standard Bank of South Africa ABSA Bank Limited
Auditors	Auditor General South Africa Registered Auditors
Attorneys	On-assignment appointments

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Abbreviations

CRR	Capital Replacement Reserve
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
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 officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and will be given unrestricted access to all financial records and related data.

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

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

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the 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 officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

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

The accounting officer certifies that the remuneration of Councillors and in-kind benefits, as disclosed in the notes to these financial statements, 30 are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act, except for the remuneration above are two (2) Section 79 Chairpersons who have been paid during the 2012/13 year in excess of the Upper Limits of the Remuneration of Public Officer Bearers Act. This excess remuneration is in line with SALGA Circular 40/2012 paragraph 1(g), which allows previously paid salary levels to be maintained until such time as the amount received is less than the upper limits amount.

The annual financial statements set out on pages 6 to 75, which have been prepared on the going concern basis, were approved by the on 30 November 2015 and were signed on its behalf by:

BS Lenkoe
Acting Municipal Manager

Audit Committee Report

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

1. Audit and Risk Management Committee Members and Attendance

The audit and risk management committee attended to their work during the 2014-15 financial year by sitting for seven (7) meetings. The committee consists of the following members:

Name of Member	Number of meetings attended	Notes
1. Mr WMS Calitz	7 of 7	3 year term appointed as Chairperson
2. Mr A Bhayt	7 of 7	3 year term appointed as member
3. Mr T Khumisi	7 of 7	3 year term appointed as member.

Meetings include special, nornal and risk committee meetings.

2. Audit Committee Responsibility

The audit and risk committee reports that it has performed its functions in all material respects in terms of section 166 of the MFMA and the adopted Audit Committee Charter as detailed below:

The committee has performed the following key responsibilities:
- Adopted the audit and risk management charter and proposed approval to council;
- Reconfirm the appropriateness of the internal audit charter and methodology;
- Recommended the risk management strategy and policy to council, due to the slow implementation thereof alternative mechanisms were followed by the internal audit manager and a risk register was considered and recommended for approval to council;
- Approved the internal audit plan for the financial year and monitored to the implementation of the plan;
- Evaluated the findings raised by internal and external audit and made recommendations on addressing those matters;
- Performed a review of financial information submitted to the committee and commented specifically on concerns raised based on year-to-date information and accuracy of projections;
- Requested management to report on pending litigation, possible contingent liabilities and significant risks;
- Requested management to address the perceived lack of discipline and called specific officials to account for the progress on the audit action plan;
- Liaised with the Auditor-General on matters relating to communication with those charged with governance;

3. The Effectiveness of Internal Control

The system of controls should be designed to provide cost-effective assurance that assets are safeguarded, liabilities and working capital are efficiently managed and compliance with appropriate laws and regulations achieved.

The committee accepted a combined assurance model where the internal and external auditors provide the committee with an indication of the level of assurance that can be derived from a system of internal controls that are appropriate and effective. Recommendations that the a combined assurance is achieved by means of a risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes were made by the committee.

From the various reports of the internal and external auditors it was noted that material matters were reported indicating material deficiencies in the system of internal control and non-compliance with laws and regulations. Accordingly, we can report that the system of internal control for the period under review was not efficient and effective. The committee is however of the view that progress have been made since the previous report, but much needs to be done to improve the system design, implementation and monitoring thereof. The lack of vacancies at departmental head level is a major concern to the committee and the accounting officer and council is urged to ensure that these positions are filled by persons meeting the employment criteria set out for those positions.

4. The Quality of In-Year Management and Monthly/Quarterly Reports Submitted in terms of the MFMA

The committee is not satisfied with the content and quality of the monthly and quarterly reports prepared and submitted to those charged with governance for the year under review.

Audit Committee Report

5. Evaluation of Financial Statements

The committee was afforded an opportunity to review the financial statements before 31 August 2014 and could make a contribution on the appropriateness of these financial statements submitted to the Auditor-General.

The committee has established a working relationship with the Auditor-General of South Africa to perform the functions listed below during an official meeting of the audit and risk management committee:
- Review the Auditor-General's management report and management's response thereto;
- Review changes in accounting policies and practices;
- Review the council's compliance with legal and regulatory provisions;
- Review significant adjustments resulting from the audit.

The role and relationship between the Audit Committee and the Auditor-General still needs attention. Although the Auditor-General liaised at district level with all municipalities where the engagement letters and audit strategy documents were tabled and discussed, the audit committee of Phokwane municipality were not in attendance.

6. Internal Audit

The internal audit function is performed by municipal officials and the committee is not satisfied that all the responsibilities as defined in the MFMA was executed by the internal audit unit.

Chairperson of the Audit Committee 31 August 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	7	61 344 486	61 385 705
Receivables from exchange transactions	4	8 639 273	7 908 619
Receivables from non-exchange transactions	5	30 051	45 364
VAT receivable	8	5 240 082	2 838 832
Consumer receivables	6	20 791 404	18 817 988
Cash and cash equivalents	3	4 063 398	33 076 913
		100 108 694	**124 073 421**
Non-Current Assets			
Investment property	9	2 266 012	2 266 013
Property, plant and equipment	10	633 206 330	666 226 615
Intangible assets	11	197 485	327 159
Heritage assets	12	9	9
Long term Receivables	13	1 374	9 214
		635 671 210	**668 829 010**
Total Assets		**735 779 904**	**792 902 431**
Liabilities			
Current Liabilities			
Finance lease obligation	15	52 222	63 281
Operating lease liability	40	19 381	19 440
Payables from exchange transactions	14	41 627 615	22 477 096
Consumer deposits	17	2 644 182	2 542 300
Employee benefit obligation	18	1 416 000	392 000
Unspent conditional grants and receipts	16	2 507 119	3 113 000
Provisions	19	3 958 259	3 941 226
Long service awards	20	1 415 000	287 000
		53 639 778	**32 835 343**
Non-Current Liabilities			
Finance lease obligation	15	-	52 222
Employee benefit obligation	18	10 684 000	10 614 898
Provisions	19	14 655 607	13 672 784
Long service awards	20	1 610 000	2 434 000
		26 949 607	**26 773 904**
Total Liabilities		**80 589 385**	**59 609 247**
Net Assets		**655 190 519**	**733 293 184**
Accumulated surplus		655 190 519	733 293 184

* See Note 43

Statement of financial performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	107 701 089	81 382 180
Rental of facilities and equipment		581 597	375 430
Interest received (trading)		12 788 828	10 030 462
Rendering of services	24	4 209 550	4 260 932
Interest received - investment	25	1 331 217	2 478 484
Total revenue from exchange transactions		**126 612 281**	**98 527 488**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	16 959 323	9 945 962
Transfer revenue			
Government grants & subsidies	27	129 086 954	111 001 088
Fines, Penalties and Forfeits		137 180	99 160
Total revenue from non-exchange transactions		**146 183 457**	**121 046 210**
Total revenue	23	**272 795 738**	**219 573 698**
Expenditure			
Employee related costs	29	(58 437 060)	(49 425 057)
Remuneration of councillors	30	(5 460 961)	(5 187 187)
Depreciation and amortisation	31	(90 303 347)	(89 286 686)
Finance costs	32	(488 011)	(1 285 519)
Lease rentals on operating lease		(87 164)	(38 582)
Debt Impairment	33	(40 720 048)	(29 025 371)
Repairs and maintenance		(7 596 117)	(8 065 721)
Bulk purchases	34	(60 656 102)	(54 856 979)
Contracted services	35	(27 049 476)	(24 748 592)
Transfers and Subsidies	36	(37 574 764)	(13 187 515)
General Expenses	37	(22 225 054)	(22 514 314)
Total expenditure		**(350 598 104)**	**(297 621 523)**
Operating deficit		**(77 802 366)**	**(78 047 825)**
Loss on disposal of assets and liabilities		(112 191)	-
Fair value adjustments		(188 110)	1 473 190
		(300 301)	**1 473 190**
Deficit for the year		**(78 102 667)**	**(76 574 635)**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	505 918 695	505 918 695
Adjustments		
Correction of errors	303 949 124	303 949 124
Balance at 01 July 2013 as restated*	**809 867 819**	**809 867 819**
Changes in net assets		
Surplus for the year	(76 574 635)	(76 574 635)
Total changes	(76 574 635)	(76 574 635)
Restated* Balance at 01 July 2014	**733 293 186**	**733 293 186**
Changes in net assets		
Surplus for the year	(78 102 667)	(78 102 667)
Total changes	(78 102 667)	(78 102 667)
Balance at 30 June 2015	**655 190 519**	**655 190 519**

Note(s)

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		99 070 644	76 275 421
Government grants and subsidies		89 605 729	93 994 692
Interest income		1 331 217	6 992 999
		190 007 590	177 263 112
Payments			
Employee costs		(62 915 197)	(49 161 981)
Suppliers		(99 409 350)	(96 714 126)
Finance costs		(488 011)	(1 285 508)
		(162 812 558)	(147 161 615)
Net cash flows from operating activities	38	**27 195 032**	**30 101 497**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(56 356 266)	(43 285 949)
Proceeds from sale of property, plant and equipment	10	211 000	-
Purchase of other intangible assets	11	-	(269 455)
Net cash flows from investing activities		**(56 145 266)**	**(43 555 404)**
Cash flows from financing activities			
Finance lease payments		(63 281)	(56 718)
Net increase/(decrease) in cash and cash equivalents		**(29 013 515)**	**(13 510 625)**
Cash and cash equivalents at the beginning of the year		33 076 913	46 587 538
Cash and cash equivalents at the end of the year	3	**4 063 398**	**33 076 913**

* See Note 43

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue by source						
Property rates	15 654 297	-	**15 654 297**	16 959 323	**1 305 026**	note 53
Service charges	93 016 705	(82 427)	**92 934 278**	107 701 089	**14 766 811**	note 53
Rental of facilities	363 415	-	**363 415**	581 024	**217 609**	note 53
Investment revenue	2 081 682	(1 384 016)	**697 666**	1 331 217	**633 551**	note 53
Transfers recognised - operational	76 376 000	(300 000)	**76 076 000**	127 966 644	**51 890 644**	note 53
Other own revenue	13 795 260	2 489 077	**16 284 337**	17 135 131	**850 794**	note 53
Total Revenue (excluding capital transfers and contributions)	**201 287 359**	**722 634**	**202 009 993**	**271 674 428**	**69 664 435**	
Expenditure by type						
Employee costs	(48 290 283)	(7 620 604)	**(55 910 887)**	(58 437 059)	**(2 526 172)**	note 53
Remuneration of councillors	(4 634 013)	180 256	**(4 453 757)**	(5 460 961)	**(1 007 204)**	note 53
Debt impairment	(11 983 889)	-	**(11 983 889)**	(40 720 048)	**(28 736 159)**	note 53
Depreciation & asset impairment	(7 293 106)	-	**(7 293 106)**	(90 303 347)	**(83 010 241)**	note 53
Finance charges	(56 517)	-	**(56 517)**	(488 011)	**(431 494)**	note 53
Materials and bulk purchases	(73 068 097)	(7 190 043)	**(80 258 140)**	(60 656 102)	**19 602 038**	note 53
Transfers and grants	(13 218 743)	-	**(13 218 743)**	(37 574 763)	**(24 356 020)**	note 53
Other expenditure	(60 608 691)	17 844 594	**(42 764 097)**	(56 957 814)	**(14 193 717)**	note 53
Total expenditure	**(219 153 339)**	**3 214 203**	**(215 939 136)**	**(350 598 105)**	**(134 658 969)**	
Surplus	**(17 865 980)**	**3 936 837**	**(13 929 143)**	**(78 923 677)**	**(64 994 534)**	
Transfers recognised - capital	100 953 278	(100 953 278)	**-**	(300 301)	**(300 301)**	
Contributions recognised - capital & contributed assets	-	62 206 315	**62 206 315**	-	**(62 206 315)**	
Surplus after capital transfers & contributions	**83 087 298**	**(34 810 126)**	**48 277 172**	**(79 223 978)**	**(127 501 150)**	
Surplus for the year	**83 087 298**	**(34 810 126)**	**48 277 172**	**(79 223 978)**	**(127 501 150)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Cash	46 587 538	-	**46 587 538**	1 711 545	**(44 875 993)**	note 53
Call investment deposits	38 343 000	-	**38 343 000**	2 351 853	**(35 991 147)**	note 53
Consumer debtors	16 525 353	-	**16 525 353**	20 791 404	**4 266 051**	note 53
Other debtors	-	-	**-**	8 669 325	**8 669 325**	note 53
VAT receivable	-	-	**-**	5 240 082	**5 240 082**	
Inventory	-	-	**-**	61 344 486	**61 344 486**	note 53
	101 455 891	**-**	**101 455 891**	**100 108 695**	**(1 347 196)**	
Non-Current Assets						
Investment property	-	-	**-**	2 266 012	**2 266 012**	note 53
Property, plant and equipment	406 877 589	-	**406 877 589**	634 665 428	**227 787 839**	note 53
Heritage	-	-	**-**	9	**9**	
Intangible	-	-	**-**	197 485	**197 485**	note 53
Other non-current assets	-	-	**-**	1 374	**1 374**	note 53
	406 877 589	**-**	**406 877 589**	**637 130 308**	**230 252 719**	
Total Assets	**508 333 480**	**-**	**508 333 480**	**737 239 003**	**228 905 523**	
Liabilities						
Current Liabilities						
Unspent conditional grants and receipts	17 347 086	-	**17 347 086**	2 507 119	**(14 839 967)**	note 53
Finance lease obligation	-	-	**-**	52 222	**52 222**	note 53
Consumer deposits	-	-	**-**	2 644 182	**2 644 182**	note 53
Trade and other payables	8 562 322	-	**8 562 322**	41 276 046	**32 713 724**	note 53
Provisions	-	-	**-**	6 789 259	**6 789 259**	note 53
	25 909 408	**-**	**25 909 408**	**53 268 828**	**27 359 420**	
Non-Current Liabilities						
Finance lease obligation	54 346	-	**54 346**	-	**(54 346)**	note 53
Provisions	21 876 714	-	**21 876 714**	26 949 607	**5 072 893**	note 53
	21 931 060	**-**	**21 931 060**	**26 949 607**	**5 018 547**	
Total Liabilities	**47 840 468**	**-**	**47 840 468**	**80 218 435**	**32 377 967**	
Net Assets	**460 493 012**	**-**	**460 493 012**	**657 020 568**	**196 527 556**	
Community wealth/equity						
Accumulated Surplus/(Deficit)	460 493 012	-	**460 493 012**	657 020 568	**196 527 556**	note 53
Total community wealth/equity	**460 493 012**	**-**	**460 493 012**	**657 020 568**	**196 527 556**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	108 602 869	(26 529)	**-**	9 945 962	**9 945 962**	note 53
Sale of goods and services	76 376 000	(300 000)	**89 622 000**	89 124 682	**(497 318)**	note 53
Government grants and subsidies	88 838 885	(26 046 569)	**161 145 000**	89 605 729	**(71 539 271)**	note 53
Interest	7 565 570	3 486 188	**10 869 000**	1 331 217	**(9 537 783)**	note 53
	281 383 324	**(22 886 910)**	**261 636 000**	**190 007 590**	**(71 628 410)**	
Payments						
Suppliers and employees	(202 148 617)	9 060 531	**(193 088 086)**	(162 814 548)	**30 273 538**	note 53
Finance charges	-	-	**-**	(488 011)	**(488 011)**	
	(202 148 617)	**9 060 531**	**(193 088 086)**	**(163 302 559)**	**29 785 527**	
Net cash flows from operating activities	**79 234 707**	**(13 826 379)**	**68 547 914**	**26 705 031**	**(41 842 883)**	
Cash flows from investing activities						
Receipts						
Proceeds on disposal of PPE	-	-	**-**	(55 655 265)	**(55 655 265)**	
Decrease (Increase) in non-current debtors	(13 604 000)	-	**(13 604 000)**	-	**13 604 000**	
Decrease (increase) in non-current investments	(10 205 000)	-	**(10 205 000)**	-	**10 205 000**	
	(23 809 000)	**-**	**(23 809 000)**	**(55 655 265)**	**(31 846 265)**	
Payments						
Capital assets	(88 838 885)	26 632 570	**(62 206 315)**	-	**62 206 315**	
Net cash flows from investing activities	**(112 647 885)**	**26 632 570**	**(86 015 315)**	**(55 655 265)**	**30 360 050**	
Cash flows from financing activities						
Receipts						
Finance lease movements	-	-	**-**	(63 281)	**(63 281)**	
Net increase/(decrease) in cash held	(33 413 178)	12 806 191	**(17 467 401)**	(29 013 515)	**(11 546 114)**	note 53
Cash/cash equivalents at the year begin:	27 093 292	-	**27 093 292**	33 076 913	**5 983 621**	
Cash and cash equivalents at the end of the year	**(6 319 886)**	**12 806 191**	**9 625 891**	**4 063 398**	**(5 562 493)**	

The accounting policies on pages 15 to 36 and the notes on pages 37 to 75 form an integral part of the annual financial statements.

Phokwane Municipality

(Registration number NC094)
Annual Financial Statements for the year ended 30 June 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	14 194 157	(14 194 157)	-	-		-	16 959 323		16 959 323	DIV/0 %	119 %
Service charges	107 602 738	(107 602 738)	-	-		-	107 701 089		107 701 089	DIV/0 %	100 %
Investment revenue	697 667	(697 667)	-	-		-	1 331 217		1 331 217	DIV/0 %	191 %
Transfers recognised - operational	76 076 005	(76 076 005)	-	-		-	76 994 254		76 994 254	DIV/0 %	101 %
Other own revenue	18 826 709	(18 826 709)	-	-		-	17 717 155		17 717 155	DIV/0 %	94 %
Total revenue (excluding capital transfers and contributions)	**217 397 276**	**(217 397 276)**	**-**	**-**		**-**	**220 703 038**		**220 703 038**	**DIV/0 %**	**102 %**
Employee costs	(55 978 524)	55 978 524	-	-	-	-	(58 437 060)	-	(58 437 060)	DIV/0 %	104 %
Remuneration of councillors	(5 601 233)	5 601 233	-	-	-	-	(5 460 961)	-	(5 460 961)	DIV/0 %	97 %
Debt impairment	(11 983 889)	11 983 889	-			-	(40 720 048)	-	(40 720 048)	DIV/0 %	340 %
Depreciation and asset impairment	(7 293 106)	7 293 106	-			-	(90 303 347)	-	(90 303 347)	DIV/0 %	1 238 %
Finance charges	(56 517)	56 517	-	-	-	-	(488 011)	-	(488 011)	DIV/0 %	863 %
Materials and bulk purchases	(71 481 175)	71 481 175	-	-	-	-	(60 656 102)	-	(60 656 102)	DIV/0 %	85 %
Transfers and grants	(13 218 743)	13 218 743	-	-	-	-	(37 574 764)	-	(37 574 764)	DIV/0 %	284 %
Other expenditure	(111 924 538)	111 924 538	-	-	-	-	(57 258 112)	-	(57 258 112)	DIV/0 %	51 %
Total expenditure	**(277 537 725)**	**277 537 725**	**-**	**-**	**-**	**-**	**(350 898 405)**	**-**	**(350 898 405)**	**DIV/0 %**	**126 %**
Surplus/(Deficit)	**(60 140 449)**	**60 140 449**	**-**	**-**		**-**	**(130 195 367)**		**(130 195 367)**	**DIV/0 %**	**216 %**

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	-	-	-	-		-	52 092 700		52 092 700	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**(60 140 449)**	**60 140 449**	**-**	**-**		**-**	**(78 102 667)**		**(78 102 667)**	**DIV/0 %**	**130 %**
Surplus/(Deficit) for the year	**(60 140 449)**	**60 140 449**	**-**	**-**		**-**	**(78 102 667)**		**(78 102 667)**	**DIV/0 %**	**130 %**

Capital expenditure and funds sources

Total capital expenditure	-	-	-	-		-	2 758 370		2 758 370	DIV/0 %	DIV/0 %

Accounting Policies

1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with 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 annual financial statements, are disclosed below.

1.1 Presentation currency

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

1.2 Going concern assumption

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure.

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, its cost is its fair value as at the date of acquisition.

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

Accounting Policies

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.

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

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

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

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

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

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	**Average useful life**
Land	
• Landfill sites	6 years
Infrastructure	15-60 years
Community	2 - 10 years
Other property, plant and equipment	3 - 20 years
Finance Leased Assets	3 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. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the prior period adjustments.

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 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.

Accounting Policies

1.6 Intangible assets (continued)

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	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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 annual 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.

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

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.

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.

Accounting Policies

1.7 Heritage assets (continued)

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.

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:

1.8 Financial instruments (continued)

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

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

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

A financial asset is:

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

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

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

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

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

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

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.

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 entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

1.8 Financial instruments (continued)

- 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 entity'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 entity.

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

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

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

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

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

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

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Receivables	Financial asset measured at amortised cost

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

Class	Category
Payables	Financial liability measured at amortised cost

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.

1.9 Leases (continued)

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.

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.

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).

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.

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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.

Accounting Policies

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.

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.12 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-generatin g 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.

Accounting Policies

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

Recoverable service amount is the higher of a non-cash-generating asset's 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.

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.

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.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the 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.

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.

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

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

1.13 Employee benefits

Short-term employee benefits

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

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

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

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

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

Defined contribution plans

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

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

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 entity is demonstrably committed to curtailment or settlement.

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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

Accounting Policies

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 41.

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 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.

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.

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.

1.16 Revenue from non-exchange transactions

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

1.16 Revenue from non-exchange transactions (continued)

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents 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.

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.

Government grants

Government grants are recognised as revenue when:

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.

Gifts and donations, including goods in-kind

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.

1.16 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

1.17 Borrowing costs

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

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

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

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

1.20 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.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA 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 MFMA 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.

Accounting Policies

1.21 Irregular expenditure (continued)

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.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Unspent conditional grants and receipts

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

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Accounting Policies

1.24 Unpaid conditional grants and receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grant is receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

Accounting Policies

1.25 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 accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013-06-01 to 2014-06-30.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.26 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 in accordance with IPSAS 20.

1.27 Capital commitments

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.28 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. 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.

Accounting Policies

1.29 Short and Long term receivables

Short and Long term Receivables are classified as financial assets at amortised cost, and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

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

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

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

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

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

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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

DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

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

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 395	1 395
Bank balances	1 710 150	27 846 584
Short-term deposits	2 351 853	5 228 934
	4 063 398	**33 076 913**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	**30 June 2014**	**30 June 2013**	**30 June 2015**	**30 June 2014**	**30 June 2013**
ABSA BANK - 1930000309	1 529 339	872 771	9 634 519	1 529 339	872 771	9 634 519
STANDARD BANK - 042608643000 (primary account)	570 569	27 223 955	32 333 100	180 811	26 973 813	31 899 113
ABSA BANK General Call - Projects - 911851699	2 351 853	5 228 934	5 052 499	2 351 853	5 228 934	5 052 500
Petty cash and float	-	-	-	1 395	1 395	1 395
Total	**4 451 761**	**33 325 660**	**47 020 118**	**4 063 398**	**33 076 913**	**46 587 527**

4. Receivables from exchange transactions

Accrued interest	5 412	8 859
Sundry debtors	55 973	298 042
Input VAT	8 577 888	7 601 718
	8 639 273	**7 908 619**

Input VAT receivables relates to Input VAT on creditors invoices not paid at year-end, that cannot be claimed from SARS until they are paid, as the Municipality is a VAT vendor registered on cash basis.

5. Receivables from non exchange transactions

Government grants and subsidies	30 051	45 364

6. Consumer receivables

Gross balances		
Rates	29 813 850	22 026 403
Electricity	8 354 334	9 378 655
Water	59 593 332	47 536 334
Sewerage	44 298 300	37 608 297
Refuse	28 626 626	24 253 342
Sundry	81 564 749	66 646 673
	252 251 191	**207 449 704**
Less: Allowance for impairment		
Rates	(25 902 596)	(17 963 981)
Electricity	(4 344 407)	(5 373 761)
Water	(55 539 955)	(44 125 115)
Sewerage	(43 604 492)	(36 979 980)
Refuse	(28 341 220)	(23 971 693)
Sundry	(73 727 116)	(60 217 184)
	(231 459 786)	**(188 631 714)**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

6. Consumer receivables (continued)

Net balance		
Rates	3 911 254	4 062 422
Electricity	4 009 927	4 004 893
Water	4 053 377	3 411 218
Sewerage	693 808	628 317
Refuse	285 405	281 649
Sundry	7 837 633	6 429 489
	20 791 404	**18 817 988**

Included in above is receivables from exchange transactions		
Electricity	4 009 927	4 004 893
Water	4 053 377	3 411 218
Sewerage	693 808	628 317
Refuse	285 405	281 649
Sundry	7 837 633	6 429 489
	16 880 150	**14 755 566**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	3 911 254	4 062 422
Net balance	**20 791 404**	**18 817 988**

Rates		
Current (0 -30 days)	1 345 527	875 959
31 - 60 days	955 951	577 070
61 - 90 days	862 440	537 000
91 days +	26 649 932	20 036 373
Less: Provision for impairment	(25 902 596)	(17 963 980)
	3 911 254	**4 062 422**

Electricity		
Current (0 -30 days)	2 947 287	2 777 946
31 - 60 days	592 692	778 298
61 - 90 days	365 602	501 902
91 days +	4 448 753	5 320 509
Less: Provision for impairment	(4 344 408)	(5 373 761)
	4 009 926	**4 004 894**

Water		
Current (0 -30 days)	3 149 066	2 134 000
31 - 60 days	2 743 647	1 612 111
61 - 90 days	3 809 589	1 003 594
91 days +	49 891 030	42 786 629
Less: Provision for impairment	(55 539 955)	(44 125 115)
	4 053 377	**3 411 219**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

6. Consumer receivables (continued)

Sewerage		
Current (0 -30 days)	793 130	685 478
610898	706 000	610 898
61 - 90 days	686 257	595 048
91 days +	42 112 913	35 716 873
Less: Provision for impairment	(43 604 492)	(36 979 981)
	693 808	**628 316**
Refuse		
Current (0 -30 days)	512 357	440 219
31 - 60 days	454 821	394 349
61 - 90 days	441 064	382 433
91 days +	27 218 384	23 036 341
Less: Provision for impairment	(28 341 220)	(23 971 693)
	285 406	**281 649**
Sundry		
Current (0 -30 days)	3 221 647	2 373 389
31 - 60 days	1 812 052	1 409 408
61 - 90 days	1 865 747	1 210 234
91 days +	74 665 303	61 653 642
Less: Provision for impairment	(73 727 116)	(60 217 183)
	7 837 633	**6 429 490**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

6. Consumer receivables (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	6 716 829	5 759 589
31 - 60 days	6 051 097	4 392 213
61 - 90 days	6 922 697	3 601 738
91 days +	203 155 270	168 041 068
	222 845 893	181 794 608
Less: Allowance for impairment	(217 784 930)	(177 634 328)
	5 060 963	**4 160 280**

Industrial/ commercial		
Current (0 -30 days)	1 587 585	1 204 040
31 - 60 days	792 084	520 039
61 - 90 days	844 597	320 093
91 days +	15 027 363	11 766 515
	18 251 629	13 810 687
Less: Allowance for impairment	(13 674 857)	(10 997 386)
	4 576 772	**2 813 301**

National and provincial government		
Current (0 -30 days)	463 271	541 212
31 - 60 days	421 981	469 882
61 - 90 days	263 404	308 380
91 days +	10 005 013	10 524 932
	11 153 669	**11 844 406**

Total		
Current (0 -30 days)	8 767 685	7 504 841
31 - 60 days	7 265 162	5 382 134
61 - 90 days	8 030 698	4 230 212
91 days +	228 187 646	190 332 516
	252 251 191	207 449 703
Less: Allowance for impairment	(231 459 787)	(188 631 713)
	20 791 404	**18 817 990**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(188 631 714)	(147 238 848)
Contributions to allowance	(42 828 073)	(41 392 866)
	(231 459 787)	**(188 631 714)**

7. Inventories

Consumable stores	1 432 596	1 621 616
Water – at cost	428 890	281 089
RDP Land	59 483 000	59 483 000
	59 911 890	59 764 089
	61 344 486	**61 385 705**

No inventory assets were pledged as security for liabilities.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

8. VAT receivable

	2015	2014
VAT	5 240 082	2 838 832

The Municipality is registered for VAT on the cash basis.
VAT is paid over to SARS only once paymet is received from debtors.
The carrying value amount of VAT receivable approximates fair value due to its short-term nature.

9. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	4 488 478	(2 222 466)	2 266 012	2 276 339	(10 326)	2 266 013

Reconciliation of investment property - 2015

	Opening balance	**Total**
Investment property	2 266 012	2 266 012

Reconciliation of investment property - 2014

	Opening balance	**Total**
Investment property	2 266 013	2 266 013

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

10. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	195 564 628	-	195 564 628	195 887 819	-	195 887 819
Community	11 552 321	(1 555 692)	9 996 629	11 552 321	(1 037 128)	10 515 193
Infrastructure	692 738 346	(337 632 781)	355 105 565	650 270 992	(251 270 842)	399 000 150
Leased office equipment	185 455	(139 050)	46 405	185 455	(77 231)	108 224
Other property, plant and equipment	36 052 568	(20 809 507)	15 243 061	29 711 964	(17 578 157)	12 133 807
Work in progress	57 250 042	-	57 250 042	48 581 422	-	48 581 422
Total	**993 343 360**	**(360 137 030)**	**633 206 330**	**936 189 973**	**(269 963 358)**	**666 226 615**

Figures in Rand	2015	2014

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	195 887 819	-	(323 191)	-	-	195 564 628
Community	10 515 193	-	-	-	(518 564)	9 996 629
Infrastructure	399 000 150	-	-	42 467 354	(86 361 939)	355 105 565
Leased office equipment	108 224	-	-	-	(61 819)	46 405
Other property, plant and equipment	12 133 807	6 342 442	-	(185 403)	(3 047 785)	15 243 061
Work in Progress	48 581 422	50 015 665	-	(41 347 045)	-	57 250 042
	666 226 615	**56 358 107**	**(323 191)**	**934 906**	**(89 990 107)**	**633 206 330**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers	Depreciation	Total
Land and Buildings	195 887 819	-	-	-	195 887 819
Community	11 033 757	-	-	(518 564)	10 515 193
Infrastructure	483 469 260	-	1 379 311	(85 848 421)	399 000 150
Leased office equipment	185 455	-	-	(77 231)	108 224
Other property, plant and equipment	11 988 621	2 896 390	-	(2 751 204)	12 133 807
Work in Progress	9 570 988	40 389 744	(1 379 310)	-	48 581 422
	712 135 900	**43 286 134**	**1**	**(89 195 420)**	**666 226 615**

Assets subject to finance lease (Net carrying amount)

	2015	2014
Leased Office Equipments	46 405	108 224

Reconciliation of Work-in-Progress 2015

	Included within Other PPE	Total
Opening balance	48 581 420	48 581 420
Additions/capital expenditure	50 015 665	50 015 665
Transferred to completed items	(41 347 044)	(41 347 044)
	57 250 041	**57 250 041**

Reconciliation of Work-in-Progress 2014

	Included within Other PPE	Total
Opening balance	9 570 988	9 570 988
Additions/capital expenditure	40 389 743	40 389 743
Transferred to completed items	(1 379 311)	(1 379 311)
	48 581 420	**48 581 420**

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.

11. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software and licenses	468 728	(271 243)	197 485	468 729	(141 570)	327 159

Reconciliation of intangible assets - 2015

	Opening balance	**Amortisation**	**Total**
Computer software and licenses	327 159	(129 674)	197 485

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software and licenses	98 315	269 455	(40 611)	327 159

12. Heritage assets

	2015			2014		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings and paintings	157 425	(157 416)	9	955	(946)	9

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Histortical buildings and paintings	9	9

Reconciliation of heritage assets 2014

	Opening balance	**Total**
Histortical buildings and paintings	9	9

13. Long term Receivables

	2015	2014
Consumer debtors - cost	2 220 712	2 241 907
Consumer debtors - impaired	(2 219 337)	(2 232 693)
	1 375	**9 214**

Receivables (consumer debtors) with arrangements are classified as long term receivables as the period to repay the outstanding balance exceeds 12 months.

These debtor accounts were also impaired because even though they have arrangements, the consumer still does not keep to the set arrangement.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

14. Payables from exchange transactions

Accrued expense	4	(1)
Salarry Control	534 815	6 650
Staff bonus acrrual	1 365 317	1 242 957
Staff leave accrual	5 588 344	3 889 347
Sundry creditors	18 360	1 008
Payments received in advance	3 398 404	3 416 817
Trade payables	30 722 371	13 920 318
	41 627 615	**22 477 096**

15. Finance lease obligation

The following assets were subject to finance leases at year end, at amortised cost:

Konica Minolta - Bizhub B751 - 41003745	56 136	83 701
Konica Minolta - Bizhub C454 - J04100290	48 941	72 973
Konica Minolta - Bizhub B36 - X041100091	10 426	15 546
	115 503	**172 220**
Transferred to current liabilities	(63 281)	(56 718)
Non-current liability	52 222	115 502

Minimum lease payments due		
- within one year	57 137	72 859
- in second to fifth year inclusive	-	54 644
	57 137	127 503
less: future finance charges	(4 915)	(12 000)
Present value of minimum lease payments	**52 222**	**115 503**

Present value of minimum lease payments due		
- within one year	52 222	63 281
- in second to fifth year inclusive	-	52 222
	52 222	**115 503**

Non-current liabilities	-	52 222
Current liabilities	52 222	63 281
	52 222	**115 503**

Interest rates are fixed at the contract date. All leases have fixed repayments.

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

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	52 222	60 280

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 44.

The fair value of finance lease liabilities approximates their carrying amounts.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

16. Unspent conditional grants and receipts

The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MSIG	240 282	-
COGHSTA	42 778	42 778
FMG	224 319	224 019
Northern Cape Roads	1 364 572	1 364 573
Library Grant	322 793	1 481 630
Northern Cape Public Works	312 375	-
	2 507 119	**3 113 000**

Movement during the year

Balance at the beginning of the year	3 113 000	(1 596 376)
Additions during the year	10 687 078	49 846 552
Income recognition during the year	(11 292 959)	(45 137 176)
	2 507 119	**3 113 000**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

17. Consumer deposits

Electricity and Water	2 641 242	2 542 300
Town Hall	2 940	-
	2 644 182	**2 542 300**

18. Retirement benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of serveral medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement,an employee may conitnue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

The most recent actuarial valuations of pla assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by ZAQEN Actuaries (Pty) Ltd. The present value of the defined benefit obigation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

18. Retirement benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	12 100 000	11 006 898
Non-current liabilities	10 684 000	10 614 898
Current liabilities	1 416 000	392 000
	12 100 000	**11 006 898**

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

Opening balance	11 007 000	11 566 000
Benefits paid	(371 970)	(377 000)
Net expense recognised in the statement of financial performance	1 465 072	(182 000)
	12 100 102	**11 007 000**

Net expense recognised in the statement of financial performance

Current service cost	428 000	512 000
Interest cost	986 000	919 000
Actuarial (gains) losses	51 072	(1 613 000)
	1 465 072	**(182 000)**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	51 072	(1 613 000)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield Curve	8.94 %
Expected rate of return on assets	Difference between norminal and yield curves	7.05 %
Expected rate of return on reimbursivement rights	CPI+1%	8.05 %
Acrual return on reimbursement rights	Yield curve based	0.82 %

GRAP 25 defines the determination of the discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximately by reference to markert yields at the reporting date on government bonds. Where there is no deep markert in government bonds with sufficiently long matuarity to match the estimated matuarity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer matuarities by extrapolating current markert rates along the yield curve.

Other assumptions

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

	2015 R	**2014 R**	**2013 R**	**2012 R**	**2011 R**
Defined benefit obligation	12 100 000	11 007 000	11 566 000	13 322 000	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

18. Retirement benefit obligations (continued)

Defined contribution plan

Cape Joint Retirement Fund

Council contributes to the Cape Joint Retirement Fund which is a defined contribution fund. This fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service cost.

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

The amount recognised as an expense for defined contribution plans is	1 576 368	1 101 072

19. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	17 614 010	999 856	18 613 866

Reconciliation of provisions - 2014

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	15 849 997	1 764 013	17 614 010

Non-current liabilities	14 655 607	13 672 784
Current liabilities	3 958 259	3 941 226
	18 613 866	**17 614 010**

19. Provisions (continued)

Environmental rehabilitation provision

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

Area of the rehabilitation sites	Jan Kempdorp	Hartswater (Old)	Hartswater (New)	Ganspan	Pampierstad
Area (ha)	2.9	2.3	4.8	4.6	1.9

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

As disclosed in note 41, Contingencies, the municipality does not have a permit of licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Enviromental Conservation Act.

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Enviroment Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the lanfill permits issued under section 50 of the National Enviromental Management: Waste Act, Act 59 of 2008.

The following key assumptions are used:

GRAP 19 defines the determination of the investment returnassumption to be usedas th rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated term/life of the landfill site.
As such a discount rate of 8.83% p.a has been used. It was derived from the yield curve, without a tax adjustment, obtained from Bond Exchange of South Africa after the markert closed on 30 June 2015.

The consumer price inflation of 6.69% p.a. is obtained from the differential between the long term markert yields on the indexlinded bond (the R197 at 1.68% p.a.) consistent with the etimated term of the liabilities and those of normiman bond (The R 185 at 8.45% p.a.)

Municipal site	Year	2015 Provision	2014 Provision
Old Hartswater	2015	2 744 373	2 508 300
New Hartswater	2021	4 040 462	8 988 023
Jan Kempdorp	2015	3 303 173	3 063 478
Ganspan	2015	5 577 986	5 321 123
Pampierstad	2014	2 947 872	2 708 984
		18 613 866	**22 589 908**

Kek Financial assumption				
Discounted rate	8.83%	8.51%		
Consumer price inflation	6.66%	6.82%		
Net Discount	2.03%	1.58%		
			-	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

20. Long service awards

Non-current liabilities	1 610 000	2 434 000
Current liabilities	1 415 000	287 000
	3 025 000	**2 721 000**

The municipality operates as unfunded deficit plan for all its employees. Under the plan, a long Service award is payable and extra leave is accrued after 5 years of continuous service and every 5 years thereafter to employees, from 10 years of service to 45 years of service.

The long service awards plan is a defined benefit plan. At year end 306 (2014 - 305) employees were elegible for long service leave awards.

The current service cost for the ensuing year is estimated to be R378,000 (2014 - R342,000) whereas the interest cost for the next year is estimated to be R282,000 (2014 - R217,000).

As at the valuation date, the long service award liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

The key assumptions utilised by management in determining the long service leave award liability are listed below:

Discount rate	Yield Curve	7.96%
Salary increase	Difference between norminal and real yield curve	6.33%
Normal retirement age	65	65
Normal salary increase rate	Equal to CPI+1%	7.33%
Net Effective discount rate	**Yield Curve Based**	**0.59%**

Present value of unfunded obligation:

	3 025 000	2 721 000

Reconciliation of present value of fund obligation

Present value of fund obligation at the beginning of the year	(2 721 000)	(2 315 000)
Current service cost	(342 000)	(275 000)
Interest cost	(217 000)	(172 000)
Benefits paid	117 962	180 810
Actuarial gain / (losses)	137 038	(139 810)
	(3 025 000)	**(2 721 000)**

20. Long service awards (continued)

Sensitivity Analysis

In order to illustrate the sensitivity of the results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates.
- 1% increse/decrease in the Normal Salary cost inflation

Withdrawal Rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost of the municipality in the form of benefits will reduce and visa versa.

We will illustrate the effect of higher and lowe withdrawal rates by inrceasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20% Withdrawal rate	Valuation assumption	+20% Withdrawal rate
Total Accrued Liability	3 125 000	3 025 000	2 859 000
Current Service Cost	419 000	378 000	343 000
Intereat Cost	302 000	282 000	265 000
	-	-	-

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

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

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	2 820 000	3 025 000	3 252 000
Current Service Cost	345 000	378 000	416 000
Interest Cost	262 000	282 000	305 000
	-	-	-

21. Financial instruments disclosure

Categories of financial instruments

2015

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	51 762 030	51 762 030
Receivables from non-exchange transactions	(27 888 324)	(27 888 324)
Cash and cash equivalents	2 353 248	2 353 248
	26 226 954	**26 226 954**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

. **Financial instruments disclosure (continued)**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	30 095 036	30 095 036
Consumer deposits	2 644 697	2 644 697
Unspent conditonal grants and receipts	17 427 827	17 427 827
Finance lease obligation	12 049 347	12 049 347
	62 216 907	**62 216 907**

2014

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	14 764 427	14 764 427
Other receivables from non-exchange transactions	11 094 148	11 094 148
Cash and cash equivalents	33 076 913	33 076 913
	58 935 488	**58 935 488**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	23 041 047	23 041 047
Consumer deposits	2 542 300	2 542 300
Unspent conditonal grants and receipts	8 105 322	8 105 322
Finance lease obligation	115 503	115 503
	33 804 172	**33 804 172**

22. Service charges

	2015	2014
Refuse removal	7 470 774	6 649 070
Sale of electricity	62 180 242	42 644 334
Sale of water	26 529 034	21 744 173
Sewerage and sanitation charges	11 521 039	10 344 603
	107 701 089	**81 382 180**

23. Revenue

	2015	2014
Fines, Penalties and Forfeits	137 180	99 160
Government grants & subsidies	129 086 954	111 001 088
Interest received (debtors)	12 788 828	10 030 462
Property rates	16 959 323	9 945 962
Rental of facilities and equipment	581 597	375 430
Service charges	107 701 089	81 382 180
	267 254 971	**212 834 282**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

23. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received (debtors)	12 788 828	10 030 462
Interest received - investment	1 331 217	2 478 484
Rental of facilities and equipment	581 597	375 430
Service charges	107 701 089	81 382 180
	122 402 731	**94 266 556**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	16 959 323	9 945 962
Transfer revenue		
Government grants & subsidies	129 086 954	111 001 088
Fines, Penalties and Forfeits	137 180	99 160
	146 183 457	**121 046 210**

24. Rendering of services

Commission received	92 789	83 618
Connection fees	130 169	90 250
Licenses and permits	3 032 852	2 881 799
Other services	948 088	1 198 762
Registration and certificates	5 652	6 503
	4 209 550	**4 260 932**

25. Investment revenue

Interest revenue		
Banks	1 331 217	2 478 484

26. Property rates

Rates received

Property rates	16 959 323	9 945 962

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies

Operating grants		
Equitable share	71 353 000	67 054 000
MSIG	693 718	890 000
FMG	1 599 700	1 477 592
EPWP	1 215 000	1 000 000
Library grant	2 132 836	725 135
	76 994 254	71 146 727
Capital grants		
Municipal Infrastructure Grant	24 836 000	25 031 999
WSOG	20 484 687	11 977 725
NC Roads	2 964 000	2 844 637
NC Public Works	2 687 703	-
FBDM Sewer Infrastructure	1 120 310	-
	52 092 700	39 854 361
	129 086 954	**111 001 088**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	55 523 078	87 310 913
Unconditional grants received	71 353 000	67 054 000
	126 876 078	**154 364 913**

Equitable Share

Balance unspent at beginning of year	-	-
Current-year receipts	71 353 000	67 054 000
Conditions met - transferred to revenue	(71 353 000)	(67 054 000)
	-	-
Closing Balance	**-**	**-**

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

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

MSIG

Balance unspent at beginning of year	-	191 152
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(693 718)	(890 000)
Transfered to equitable share	-	(191 152)
	240 282	**-**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies (continued)

COGHSTA

Balance unspent at beginning of year	42 778	-
Current-year receipts	-	41 210 342
Conditions met - transferred to revenue	-	(41 167 564)
	42 778	**42 778**

Conditions still to be met - remain liabilities (see note 16).

FMG

Balance unspent at beginning of year	224 019	185 460
Current-year receipts	1 600 000	1 550 000
Conditions met - transferred to revenue	(1 599 700)	(1 477 593)
Transfered to Equitable share	-	(33 848)
	224 319	**224 019**

Conditions still to be met - remain liabilities (see note 16).

Municipal Infrastructure Grant

Current-year receipts	24 836 000	25 032 000
Conditions met - transferred to revenue	(24 836 000)	(25 032 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

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

EPWP

Current-year receipts	1 215 000	1 000 000
Conditions met - transferred to revenue	(1 215 000)	(1 000 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

NC Dept of Roads and Public Works

Balance unspent at beginning of year	1 364 573	-
Current-year receipts	2 964 000	4 209 210
Conditions met - transferred to revenue	(2 964 000)	(2 844 637)
	1 364 573	**1 364 573**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

27. Government grants and subsidies (continued)

Library Grant

Balance unspent at beginning of year	1 481 630	1 219 764
Current-year receipts	974 000	987 000
Conditions met - transferred to revenue	(2 132 837)	(725 134)
	322 793	**1 481 630**

Conditions still to be met - remain liabilities (see note 16).

NC Public Works

Current-year receipts	3 000 078	-
Conditions met - transferred to revenue	(2 687 703)	-
	312 375	**-**

Conditions still to be met - remain liabilities (see note 16).

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

28. Auditors' remuneration

Fees	2 097 563	2 669 241

29. Employee related costs

Acting allowances	499 256	166 884
Basic	38 293 228	33 717 571
Bonus	3 177 716	2 854 970
Employee Related Costs - Contributions for Pensions and Medical Aids	8 726 984	7 656 684
Housing benefits and allowances	166 076	163 902
Leave pay provision charge	1 868 878	963 367
Long-service awards	284 925	275 000
Other payment- Bargaining Council	26 171	23 331
Overtime payments	2 142 607	1 429 035
Defined contribution plans	1 414 000	512 000
SDL	446 709	402 795
Travel, motor car, accommodation, subsistence and other allowances	1 020 098	929 215
UIF	370 412	330 303
	58 437 060	**49 425 057**

Remuneration of Municipal Manager

Annual Remuneration	369 664	597 840
Car Allowance	68 058	109 515
Cellphone Allowance	5 194	8 904
Annual Bonus	35 206	49 820
Contributions to UIF, Medical and Pension Funds	88 675	142 613
Leave payout	32 902	-
	599 699	**908 692**

The municipal Manager Mr MP Dichaba, resigned on 28 February 2015.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

29. Consumer receivables (continued)

Remuneration of Chief Finance Officer

Annual Remuneration	490 043	462 305
Car Allowance	97 002	91 272
Housing allowance	61 539	60 963
Annual Bonus	40 836	38 525
Contributions to UIF, Medical and Pension Funds	134 386	124 112
	823 806	**777 177**

Remuneration of Planning and Operations Director

Annual Remuneration	522 000	410 541
Car Allowance	100 677	35 097
Cellphone Allowance	7 632	636
Annual Bonus	43 500	26 472
Contributions to UIF, Medical and Pension Funds	102 728	98 669
	776 537	**571 415**

Remuneration of Infrastruture and Human Settlement Officer

Annual Remuneration	462 000	269 500
Car Allowance	98 648	65 618
Cellphone Allowance	7 632	4 452
Annual Bonus	38 500	22 458
Housing Allowance	43 202	27 301
Contributions to UIF, Medical and Pension Funds	124 944	72 952
	774 926	**462 281**

Remuneration of Acting Municipal Manager

Cellphone Allowance	66 855	-
Car Allowance	2 950	-
Contributions to UIF, Medical and Pension Funds	1 265	-
	71 070	**-**

The Acting Municipal Manager was appointed to act on 01 March 2015.

30. Remuneration of councillors

Former Mayor (Resigned on 01 March 2015)	431 295	661 508
Current Mayor (Apointed on 01 March 2015)	218 705	-
Speaker	524 408	534 759
Mayoral Committee Members	1 508 821	836 055
Councillors	2 167 427	2 252 111
Councillors' pension contribution	610 306	529 606
	5 460 962	**4 814 039**

In-kind benefits

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

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

31. Depreciation and amortisation

Property, plant and equipment	90 303 347	89 286 686

32. Finance costs

Finance leases	8 713	14 684
Post retirement benefit obligation	865	1 092 457
Trade and other payables	478 433	178 378
	488 011	**1 285 519**

33. Debt impairment

Debt impairment	40 720 048	29 025 371

34. Bulk purchases

Electricity	47 293 788	45 274 008
Water	13 362 314	9 582 971
	60 656 102	**54 856 979**

35. Contracted services

Operating Leases	209 554	219 089
Specialist Services	13 121 775	12 081 645
Other Contractors	13 718 147	12 447 858
	27 049 476	**24 748 592**

36. Grants and subsidies paid

Other subsidies		
Free Services and Indigents - Electricity	33 002 060	7 206 229
Free Services and Indigents - Refuse	1 172 265	1 305 096
Free Services and Indigents - Sewerage	2 823 676	2 940 061
Free Services and Indigents - Water	576 763	1 736 129
Total Grants and Subsidies	**37 574 764**	**13 187 515**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

37. General expenses

Advertising	265 846	4 838
Auditors remuneration	2 097 563	2 669 241
Bank charges	308 420	170 872
Cleaning	50 449	71 656
Consulting and professional fees	425 865	1 280 484
Entertainment	289 562	199 277
Insurance	443 781	357 745
Conferences and seminars	36 374	30 020
Magazines, books and periodicals	26 128	11 913
Motor vehicle expenses	298 374	483 177
Fuel and oil	1 448 887	1 489 478
Postage and courier	223 149	139 453
Printing and stationery	699 229	835 396
Protective clothing	388 544	282 251
Security (Guarding of municipal property)	1 482 632	1 412 998
Subscriptions and membership fees	532 919	398 928
Telephone and fax	1 437 024	1 205 140
Training	346 995	1 292 224
Subsistance and Travelling	3 336 005	2 803 103
Refuse	40 258	48 167
Assets expensed	1 874	-
Electricity	3 160 156	2 520 907
Other expenses	3 280 788	3 755 815
Chemicals	1 604 232	1 051 231
	22 225 054	**22 514 314**

38. Cash generated from operations

Deficit	(78 102 667)	(76 574 635)
Adjustments for:		
Depreciation and amortisation	90 303 347	89 286 686
Gain on sale of assets and liabilities	112 191	-
Finance costs - Finance leases	488 011	1 285 519
Debt impairment	40 720 048	29 025 371
Movements in provisions (Current)	2 169 033	(8 397 057)
Movements in provisions (Non-current)	(754 898)	(79 000)
Movement in defined benefit obligation	-	5 450 263
Interest Income Receivable	(1 331 217)	(12 508 946)
Other non-cash items (FBDM - Sewer infrastructure sponsored)	(1 120 310)	-
Other non-cash items Landfill provision)	982 824	14 264 741
Changes in working capital:		
Inventories	41 219	14 371
Consumer debtors	(42 392 802)	(39 616 651)
Receivables from exchange transactions	15 313	9 757 090
Payables from exchange transactions	19 150 459	10 823 543
VAT	(2 401 250)	11 148 227
Unspent conditional grants and receipts	(786 151)	(3 818 881)
Consumer deposits	101 882	40 856
	27 195 032	**30 101 497**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

39. Commitments

Authorised expenditure

Already contracted for but not provided for		
• Property, plant and equipment	35 975 381	42 221 680
Total capital commitments		
Already contracted for but not provided for	35 975 381	42 221 680

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.

40. Operating lease income

The municipality has properties under operating leases.

No investment properties have been disposed of since the statement of financial performance date.

No contingent rents were recognised as revenue in the period.

Phokwane Local Municipality rents buildings and sportfields situated in Jan Kempdorp and Hartswater to the public.
The expired date of the leases is as follows:

2014/2015 financial year	one contract
2015/2016 financial year	two contracts
2016/2017 finanical year	two contracts
2017/2018 financial year	one contract
indifinte period	seven contracts

Only two lease rental contracts are escalating annually.

At the Statement of Financial Position date, where the municipality acts as a lessor under non-cancellable operating leases, it will receive operating lease income as follows:

	2015	2014
- within one year	163 459	164 466
- in two to five years	313 730	150 272
	477 189	**314 738**

41. Contingencies

The following litigations have been raised against the municipality:

2015 Matters	Legal Represantative	Status	Value of Litigation
Afriforum vs Phokwane LM	Towell & Groenewaldt	In Progress	1Value not determined
Christoffel Johannes Jacobus Victor vs Phokwane LM	Towell & Groenewaldt	In Progress	1,430,000
Yvonne Visser / David Visser vs Phokwane LM / Municipal Manager / Johannes M. Maretela	Mjila & Partners	In Progress	1Value not determined
T. Choane vs Phokwane Municipality	Zebediela Attorneys	In Progress	1Value not determined, matter referred to Bargaining Council
Phokwane Municipality vs Melvin Davids – Pothole Kolong Street Pampierstad third party	Marsh Africa/Commercial Practice – Claims Services	In Progress	2,210.00
GWK vs Phokwane Municipality	Faluchas Trading and Projects	In Progress	818,040.00
OS & KW Setlhogo obo P Setlhogo vs Phokwane Municipality	Ntsoane Inc Attorneys	In Progress	7,000,000.00
M. Ndwanya vs Phokwane Municipality	Madisha Attorneys	In Progress. Applicant took the matter to Labour Court	1Compensation based on the applicant's last salary scale (with annual increments adjustments plus 24 month compensation
Komanisi vs Phokwane Municipality	Towell & Groenewaldt	In Progress	1,900,000
Bidco Investment/ Morula Project vs Phokwane Municipality	Towell & Groenewaldt	In Progress	1Value not determined
Department of Enviromental Affairs vs Phokwane local municipality	N/A	The municipality is operating an unlicenced landfill site, therefore a posibble litigation might arise where by the department will impose a fine for contravention of the National Environmental Management: Waste Act No 59 of 2008.	10,000,000

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

41. Contingencies (continued)

Babereki Consulting Engineers vs Phokwane Municipality	BG Bojosinyane & Associates	In Progress	19,037,583

2014 Matters	Legal Represantative	Status	Value of Litigation
Afriforum vs Phokwane LM	Towell & Groenewaldt	In Progress	1Value not determined
Christoffel Johannes Jacobus Victor vs Phokwane LM	Towell & Groenewaldt	In Progress	1,430,000.00
Yvonne Visser / David Visser vs Phokwane LM / Municipal Manager / Johannes M. Maretela	Mjila & Partners	In Progress	1Value not determined
Ganspan Small Scale Farmers Members vs Phokwane LM	Towell & Groenewaldt	1Settled	
Eviction Orders	Liebenberg Attorneys	1Settled	
V Madlala Vs Phokwane LM	Ntsoane Inc Attorneys	1Settled	

Contingent assets

The municipality had has issued a litigation against the following third party:

2015 Matter	Legal Represantative	Status	Value of Litigation
Tripple Seven Holdings / Karel Erasmus Albertse vs Phokwane LM	Office of the State Attorney	In Progress	1Value undetermined

2014 Matter	Legal Represantative	Status	Value of Litigation
Tripple Seven Holdings / Karel Erasmus Albertse vs Phokwane LM	Office of the State Attorney	In Progress	1Value undetermined

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

42. Related parties

Accounting Officers	Refer to accounting officers' report note 29
Close family member of key management	Name
Joint venture of key management	Name (Proprietary) Limited of [Mr key management]

Key Management and receive and pay for services on the same terms and conditions as other ratepayers / residents.

Related party transactions and balances

	2015	2014
Services charged to related parties (Senior Managers)		
Sengani, R	4 799	1 656
Sediti, TP	5 725	9 067
Dichaba, MP	15 008	36 139
Nikani, Z	6 970	15 992
Rates charged to related parties (Senior Managers)		
Dichaba, MP	3 599	3 395
Receivable balances from related parties (Senior Managers)		
Sengani, R	1 124	1 656
Sediti, TP	8 750	5 000
Dichaba, MP	4 186	10 221
Nikani, Z	425	1 398
Transactions family member related party transaction		
Thatonyane Trading CC	-	897 480
Spronghet Trading (Pty) Ltd	17 050	-

The member of Thatoyane Trading CC is a spouse of an employee of the municipality, "Ms N. Vinger (Financial Controller: Rates & Valuations)"

The member of Spronghet Trading (Pty) Ltd is a spouse of an employee of the municipality, "Ms NM. Kalman (Team Leader: Roads & Storm)

Key management information

Class	Remuneration	Number
Section 57 Managers	Refer to note	29
Mayor	Refer to note	29
Councillors	Refer to note	29
Municipal Managers	Refer to note	29

43. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors

43.1 Prior period error - Stale cheque not reversed

During the period under review it was noted that a stale cheque was not reversed timeously during the year ended 30 June 2014. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Decrease in payables from exchange transactions	903
Statement of Financial performance:	
Increase in general expenditure	-903

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Prior period errors (continued)

43.2 Prior period error - Sundry income understated

During the period under review it was noted that sundry income was understated due to certain receipts not being correctly intergrated to the general ledger at 30 June 2014. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Increase in receivables from exchange transactions	212 151
Statement of Financial performance:	
Increase in revenue from the rendering of services	-212 151

43.3 Prior period error - Overstatement of sundry creditors

During the period under review it was noted that certain sundry creditors were overstated at 30 June 2013. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Increase in opening accumulated surplus	-561 675
Decrease in sundry creditors	562 386
Decrease in vat receivable	-711

43.4 Prior period error - Understatement of interest received

During the period under review it was noted that interest received at 30 June 2013. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Increase in opening accumulated surplus	-66 326
Increase in vat receivable	66 326

43.5 Prior period error - Overstatement of landfill site provision

During the period under review it was noted that the land fill site provision was overstated at 30 June 2013. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Decrease in provision for landfill site	4 975 898
Statement of Financial performance:	
Decrease in general expenses	-4 975 898

43.6 Prior period error - Stores write off not processed to expenditure

During the period under review it was noted that inventory stores write off were not expensed to repairs and maintenance expenditure. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Decrease in payables from exchange transactions	557 924
Statement of Financial performance:	
Decrease in general expenses	-557 924

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Prior period errors (continued)

43.7 Prior period error - Grant receivable incorrectly written off

During the period under review it was noted that the INEP grant receivable was incorrectly written off at 30 June 2013. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Increase in receivables from non-exchange transactions	500 000
Increase in opening accumulated surplus	-500 000

43.8 Prior period error - Understatement of Vat receivable from SARS

During the period under review it was noted that the SARS VAT receivable was understated at 30 June 2014. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:	
Increase in VAT receivable	36 353
Statement of financial performance:	
Increase in interest received - other	-36 353

43.9 Prior period error - Misstatements of receivables from non exchange transactions and unspent grants

During the period under review it was noted that the receivables from non-exchange transactions as well as various unspent grants were misstated due to incorrect revenue recognition in prior financial years. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:	
Decrease in receivables from non-exchange transactions	-7 356 133
Decrease in opening accumulated surplus	2 020 629
Decrease in unspent grants	4 992 321
Statement of financial performance:	
Decrease in government grants and subsidies	343 183

43.10 Prior period error - Misstatement of Property, Plant and Equipment:

During the period under review it was noted that property, plant and equipment was misstated due to the fact that the municipality did not have a fully compliant GRAP 17 fixed asset register at 30 June 2013 or 30 June 2014. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Prior period errors (continued)

Statement of financial position

Increase in the cost of community assets	-	283 875
Decrease in the accumulated depreciation of community assets	-	4 971 381
Increase in opening accumulated surplus	-	300 155 000
Increase in the cost of other assets	-	15 326 265
Increase in the accumulated depreciation of other assets	-	(8 831 744)
Decrease in the cost of investment property	-	(3 562 791)
Decrease in the accumulated depreciation of investment property	-	354 620
Decrease in the cost of heritage assets	-	(157 425)
Decrease in the accumulated depreciation of heritage assets	-	157 425
Increase in operating lease liability	-	9 114
Increase in the cost of land and buildings	-	(39 791 856)
Decrease in the accumulated depreciation of land and buildings	-	18 194 153
Decrease in the cost of WIP	-	34 583 764
Increase in the cost price of intangible assets	-	1
Increase in the accumulated depreciation of intangible assets		(70 150)
Increase in the cost price of infrastructure assets	-	(387 813 429)
Increase in the accumulated depreciation of infrastructure assets	-	16 450 786

Statement of Financial Performance

Decrease in general expenditure	-	(1 647 526)
Increase in depreciation	-	51 401 698
Increase in revenue from exchange transactions	-	(13 161)

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Prior period errors (continued)

Prior period adjustments

Consumer receivables have been disclosed as a stand alone in the face ot the statement of financial position in the current year.

Impact in the financial statements:

Statement of financial position		
Decrease in Receivables from exchange transactions	-	(14 755 567)
Decrease in Receivables from non-exchange transactions	-	(4 062 421)
Increase in Consumer receivables	-	18 817 988
	-	-

A separaton has been made between Input VAT on invoices accrual basis and the VAT receivable from SARS based on cash basis.

Impact in the financial statements:

Statement of financial position		
Increase in Receivables from exchange transactions	-	7 601 718
Decrease in VAT receivable	-	(7 601 718)
	-	-

Sundry debtors accounts that were incorrectly mapped under receivables from non-exchange transactions and under sundry creditors in payables from exchange transactions were identified and have been re-maped under receivables from exchange transactions to reflect a true clasification of receivables.

Impact in the financial statements:

Statement of financial position		
Increase in receivables from exchange transactions (Sundry debtors)	-	85 891
Decrease in Receivables from non-exchange transactions (other receivables)	-	(85 229)
Decrease in payables from exchange transactions (Sundry creditors)	-	(662)
	-	-

Salary control creditors were identified mapped in trade payables and sundry creditors, and they were separately disclosed as a stand alone line item.

Impact in the financial statements:

Statement of financial position		
Increase in Payables from exchange transactions (Salary control)	-	6 650
Decrease in Payables from exchange transactions (Sundry creditors)	-	(865)
Decrease in Payables from exchange transactions (Trade payables)	-	(5 785)
	-	-

In the statement of financial performance, an incorrect mapping of accounts of revenue and expense that were grouped together was identified and grouped separately.

Impact in the financial statement:

Statement of financial performance		
Increase in Rendering of services (Licenses and permits)	-	1 822 638
Decrease in Rendering of services (Registration and certificates)	-	(1 753 804)

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

43. Prior period errors (continued)

Increase in General Expenses (Motor vehicle expenses)	-	(68 834)
	-	-

In the statement of financial performance expense accounts that were incorrectly grouped together under general expenses (Other expenses) though belonging to a certain class of expense were identified, and have been re-mapped to respective class.

Impact in the financial statements:

Statement of financial performance		
Increase in repairs and maintenance	-	1 954 880
Increase in General expenses (Printing and stationery)	-	4 871
Increase in General expenses (Subsistance and Travelling)	-	2 803 103
Decrease in General expenses (Assets expensed)	-	(68 240)
Decrease in General expenses (Other expenses)	-	(4 694 614)
	-	-

44. Risk management

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

The municipality did not default on any of their trade and other payables commitments during the period under review and no terms were re-negotiated.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Figures in Rand	2015	2014

44. Risk management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, trade and other receivables, long term receivables and unpaid conditional grants and subsidies.

Trade receivables are disclosed net after provisions are made for impairment and bad debts. Trade receivables comprise of a large number of rate and other services payers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

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

The credit quality of receivables are further assessed by grouping individual debtors into different categories with similar risk profiles. The categories include the following: Bad Debt, Deceased, Good payers, Slow Payers, Government Departments, Debtors with Arrangements, Indigents, Municipal Workers, Handed over to Attorneys and Untraceable account. These categories are then impaired on a group basis based on the risk profile/credit quality associated with the group.

All rates and services are payable within 30 days from invoice date. Refer to the applicable note for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

No trade and other receivables are pledged as security for financial liabilities.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents is considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank and Standard Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Other Receivables are individually evaluated annually at Financial Position date for impairment.

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

Financial instrument	2015	2014
Receivables from exchange transactions	8 639 273	7 908 619
Receivables from non-exchange transactions	30 051	45 364
Cash and cash equivalents	4 063 398	33 076 913

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

44. Risk management (continued)

Market risk

Interest rate risk

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

45. Going concern

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

46. Events after the reporting date

The Municipality has no events after reporting date for the financial year ended 30 June 2014.

47. Unauthorised expenditure

Reconciliaion of unauthorised expenditure		
Opening balance	158 351 932	123 978 128
Unauthorised operating expenditure current year	134 610 105	34 373 804
	292 962 037	**158 351 932**

48. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure in prior years	656 584	478 206
Interest paid	262 235	178 378
	918 819	**656 584**

Incident	Disciplinary steps/criminal proceedings	2015	2014
Fruitless in in prior years	None	656 584	478 206
Interest paid	None	262 235	178 378
		918 819	**656 584**

49. Irregular expenditure

Opening balance	63 320 965	8 805 171
Add: Irregular Expenditure - current year	4 282	54 515 794
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonement	**63 325 247**	**63 320 965**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

49. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Three quotations not obtained	Management is in the process of determining the completeness of irregular expenditure	4 282
Suppliers appointed without obtaining a valid Tax clearance certificate or MBD forms not completed	Management is in the process of determining the completeness of irregular expenditure	29 117 073
		29 121 355

Details of irregular expenditure - prior year

	Disciplinary steps taken/criminal proceedings	
Three quotations not obtained	Management is in the process of determining the completeness of irregular expenditure	1 527 365
Suppliers appointed without obtaining a valid Tax clearance certificate	Management is in the process of determining the completeness of irregular expenditure	103 839
Expenditure exeeded the contractual amount	Management is in the process of determining the completeness of irregular expenditure	17 047 306
Competitive Bidding process not followed	Management is in the process of determining the completeness of irregular expenditure	35 836 986
		54 515 496

Deviations

Emergency - No qoutations obtained	61 625
Only one suplier responded to request for qoutations	12 240
Sole supplier	6 329
Strip and Qoute	134 124
	214 318

50. Additional disclosure in terms of Municipal Finance Management Act

50.1 Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA

	2015	2014
Opening balance	383 591	-
Current year subscription / fee	30 000	383 591
Amount paid - current year	(413 591)	-
	-	**383 591**

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

50.2 Material losses

Electricity distribution losses (KWh)	2015	2014
KWh purchased	55 315 052	53 226 463
less: kWh sold	(41 040 751)	(41 712 666)
KWh losses	14 274 301	11 513 797
% losses	26	22
Average cost per kWh unit	0.500	0.522
Loss in Rand value	7 061 733	6 013 940
	-	-

Electricity distribution losses (kVA)	2015	2014
KVA purchased	307 585	189 870
less: kVA sold	(47 857)	(54 181)
KVA losses	259 728	135 689
% losses	84	71
Average cost per kVA unit	75.690	50.480
Loss in Rand value	19 660 085	6 849 589
	-	-

Water distribution losses (Mega litres)	2015	2014
Mega litres purified	4 193 675	3 265 994
less: mega litres sold	(1 960 421)	(1 607 619)
Mega litre losses	2 233 254	1 658 375
% losses	53	51
Average cost per unit	3.270	2.970
Loss in Rand value	7 299 649	4 919 641
	-	-

50.3 Audit fees

Current year subscription / fee	2 097 563	2 665 317
Amount paid - current year	(2 097 563)	(2 665 317)
	-	-

50.4 PAYE, SDL and UIF

Opening balance	-	-
Current year subscription / fee	6 550 684	5 689 750
Amount paid - current year	(6 019 214)	(5 689 750)
	531 470	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

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

50.5 Pension and Medical Aid Deductions

	2015	2014
Opening balance	-	-
Current year subscription / fee	4 821 630	8 608 214
Amount paid - current year	(4 821 630)	(8 608 214)
	-	-

50.6 VAT

	2015	2014
VAT receivable	5 240 082	2 838 832

VAT output payables and VAT input receivables are shown in note 8.

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

51. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

Management has taken a decision to dispose of a significant asset /or a group of assets and liabilities /or a component of the entity.

52. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the accounting officer and includes a note to the annual financial statements.

For the period underreview there were instances wheregoods and services were procured via a deviation from thenormal Supply Chain Management Regulations.

Deviations	2015	Number of deviations
Sole supplier	6 329	1
Other	207 989	8
	214 318	**9**

Notes to the Annual Financial Statements

53. Budget differences

Material differences between budget and actual amounts

Property Rates: Consumers moved from residential and business premises and less property rates income was recieved as anticipated.
Service charges: Rebates were given to consumers due to a tariff error in 2010/11. The budget was adjusted to accomodate the rebates. However more services charges were levied than anticipated.
Rental of facilities: Previous unrecognised rent was recognised.
Investment revenue: Interest rates increased during the year.
Transfer recognised-operational: Projects not budgeted for but granted by Provincial Government lead to increase in income recognition.
Other own revenue: Consumer made use of other services offered by the municipality.

Employee cost: The appoinment of 2 directors increased the expenditure for the year.
Remuneration of councillors: No significant variance.
Debt impairment: Debt impairment was not properly budgeted as the prior year expense was questioned byt the auditors.
Depreciation: Due to the lack of an updated fiaxed asset register during the compilation of th adjustment budget, incorrect budgeting was performed.
Materials and bulk purchases: Increase in electricity bought from Eskom and more services consumed.
Other expenditure: No significant variance.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report