TOKOLOGO MUNICIPALITY
(Registration number FS182)
Financial statements
for the year ended 30 June 2015

General Information

Legal form of entity	Tokologo is a Category B Local Municipality as defined by the Municipal Structures Act. (Act no 117 of 1998)
Nature of business and principal activities	Tokologo Municipality is a local municipality performing the functions as set out in the Constitution, (Act no 105 of 1996)
The following is included in the scope of operation	
Council	
Executive Mayor\Speaker	Mr. BW Seakge
Councillors	Mr. AF Bartleman
	Mr. MM Lentsa
	Mr. HS Links
	Ms. GK Magomo
	Ms. PP Maseko
	Mr. MG Nyanami
	Ms. BE Seekoei
Grading of local authority	Low Capacity (Grade 2)
Accounting Officers	Mr. KJ Motlhale
Chief Finance Officer (CFO)	Ms. MO Masisi
Registered office	Voortrekker Street Market Square Boshof 8340
Business address	Voortrekker Street Market Square Boshof 8340
Postal address	Private Bag X46 Boshof 8340
Bankers	First National Bank
Auditors	The Auditor - General of South Africa
Attorneys	Morobane Attorneys

General Information

Enabling Legislation	Municipal Finance Management Act (Act no 56 of 2003)
	Division of Revenue Act (Act No 5 of 2012)
	The Income Tax Act (Act No 28 of 1997)
	Value Added Tax Act (Act no 117 of 1998)
	Municipal Structures Act (Act No 89 of 1991)
	Municipal Systems Act (Act no 117 of 1998)
	Municipal Plannning and Performance Management Regulations
	Water Services Act (Act no 108 of 1997)
	Housing Act (Act no 107 of 1997)
	Muncipal Property Rates Act (Act no 6 of 2004)
	Electricity Act (Act no 41 of 1987)
	Skills Development Levies Act (Act no 9 of 1999)
	Employment Equity Act (Act no 9 of 1999)
	Unemployment Insurance Act (Act no 30 of 1966)
	Basic Conditions of Employment Act (Act no 75 of 1997)
	Supply Chain Management Regulatons, 2005

Index

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officers' Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer 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, is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on government grants for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The financial statements set out on pages 5 to 88, which have been prepared on the going concern basis, were approved by the accounting officers on 31 August 2015 and were signed by:

Accounting Officer
Designation

Accounting Officer
Designation

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	2,593,141	4,245,323
Consumer receivables from exchange transactions	4	4,174,641	6,876,065
Inventories	5	23,444	20,216
Operating lease receivable	6	27,248	28,028
Receivables from non - exchange transactions	7	1,410,938	1,444,483
		8,229,412	**12,614,115**
Non-Current Assets			
Biological assets that form part of an agricultural activity	8	1,981,600	1,706,100
Investment property	9	28,153,272	28,153,272
Property, plant and equipment	10	551,914,900	559,787,219
Intangible assets	11	3,872	19,529
Investments	12	146,440	324,624
		582,200,084	**589,990,744**
Total Assets		**590,429,496**	**602,604,859**
Liabilities			
Current Liabilities			
Consumer deposits	13	439,533	410,653
Finance lease obligation	14	467,596	435,632
Payables from exchange transactions	15	24,887,462	16,775,284
VAT payable	51	861,814	3,509,241
Employee benefit obligation	17	109,000	81,000
Long service awards	18	215,000	144,000
Provision - Landfill sites	16	247,959	302,995
		27,228,364	**21,658,805**
Non-Current Liabilities			
Finance lease obligation	14	460,129	889,421
Employee benefit obligation	17	3,059,000	2,964,000
Provision - Landfill site	16	13,177,062	12,819,031
Long service awards	18	1,381,000	1,092,000
		18,077,191	**17,764,452**
Total Liabilities		**45,305,555**	**39,423,257**
Net Assets		**545,123,941**	**563,181,602**
Accumulated surplus		545,123,941	563,181,602

* See Note 42

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	19,939,881	18,881,867
Rendering of services		205,523	109,741
Rental of facilities and equipment	20	789,869	793,088
Interest received	21	5,848,215	1,642,828
Total revenue from exchange transactions		**26,783,488**	**21,427,524**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	3,888,529	3,217,869
Transfer revenue			
Government grants & subsidies	36	76,911,156	77,247,596
Traffic fines		396,550	331,400
Total revenue from non-exchange transactions		**81,196,235**	**80,796,865**
Total revenue	23	**107,979,723**	**102,224,389**
Expenditure			
Employee related costs	24	(30,252,561)	(22,726,980)
Remuneration of councillors	25	(2,406,549)	(2,179,765)
Depreciation and amortisation	26	(32,315,521)	(26,092,841)
Finance costs	27	(1,325,663)	(452,572)
Lease rentals on operating lease		(215,422)	(193,712)
Debt Impairment	28	(14,221,255)	(2,045,880)
Repairs and maintenance	29	(1,414,729)	(3,005,898)
Bulk purchases	30	(19,585,257)	(20,153,684)
Contracted services	31	(8,253,957)	(8,811,009)
Transfers and Subsidies	32	(1,937,414)	(1,597,456)
General Expenses	33	(14,216,584)	(13,481,667)
Total expenditure		**(126,144,912)**	**(100,741,464)**
Operating (deficit) surplus		**(18,165,189)**	**1,482,925**
Gain on disposal of assets and liabilities		(190,083)	237,008
Fair value adjustments	34	301,500	506,862
Gains or (losses) on biological assets and agricultural produce	37	(3,895)	(40,691)
		107,522	**703,179**
(Deficit) surplus for the year		**(18,057,667)**	**2,186,104**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	562,097,487	562,097,487
Adjustments		
Correction of prior period error	(1,101,989)	(1,101,989)
Balance at 01 July 2013 as restated*	**560,995,498**	**560,995,498**
Changes in net assets		
Surplus for the period	2,186,104	2,186,104
Total changes	2,186,104	2,186,104
Restated* Balance at 01 July 2014	**563,181,608**	**563,181,608**
Changes in net assets		
Surplus / (Deficit) for the period	(18,057,667)	(18,057,667)
Total changes	(18,057,667)	(18,057,667)
Balance at 30 June 2015	**545,123,941**	**545,123,941**

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		13,787,237	16,339,261
Grants		74,973,752	75,650,140
Interest income		5,848,215	1,642,828
		94,609,204	93,632,229
Payments			
Employee costs		(32,560,110)	(25,000,745)
Suppliers		(37,537,431)	(24,865,441)
		(70,097,541)	(49,866,186)
Net cash flows from operating activities	38	**24,511,663**	**43,766,043**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(24,648,405)	(43,242,203)
Proceeds Sale of Biological assets	9	22,100	111,571
Investments		185,451	10,119
Net cash flows from investing activities		**(24,440,854)**	**(43,120,513)**
Cash flows from financing activities			
Finance lease movements		(1,722,991)	378,580
Net increase/(decrease) in cash and cash equivalents		**(1,652,182)**	**1,024,110**
Cash and cash equivalents at the beginning of the year		4,245,323	3,221,213
Cash and cash equivalents at the end of the year	3	**2,593,141**	**4,245,323**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	19,172,508	-	**19,172,508**	19,939,881	**767,373**	Note 50
Rendering of services	-	-	**-**	205,523	**205,523**	Note 50
Rental of facilities and equipment	377,803	-	**377,803**	789,869	**412,066**	Note 50
Interest received - investment	1,456,000	-	**1,456,000**	5,848,215	**4,392,215**	Note 50
Total revenue from exchange transactions	**21,006,311**	**-**	**21,006,311**	**26,783,488**	**5,777,177**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	3,624,028	-	**3,624,028**	3,888,529	**264,501**	
Transfer revenue						
Government grants & subsidies	47,470,900	-	**47,470,900**	76,911,156	**29,440,256**	Note 50
Fines, Penalties and Forfeits	93,298	-	**93,298**	396,550	**303,252**	
Other transfer revenue	388,505	-	**388,505**	-	**(388,505)**	
Total revenue from non-exchange transactions	**51,576,731**	**-**	**51,576,731**	**81,196,235**	**29,619,504**	
Total revenue	**72,583,042**	**-**	**72,583,042**	**107,979,723**	**35,396,681**	
Expenditure						
Personnel	(28,705,772)	(623,303)	**(29,329,075)**	(30,252,561)	**(923,486)**	
Remuneration of councillors	(2,081,853)	-	**(2,081,853)**	(2,406,549)	**(324,696)**	Note 50
Depreciation and amortisation	(2,609,798)	(500,000)	**(3,109,798)**	(32,315,521)	**(29,205,723)**	Note 50
Finance costs	(260,542)	-	**(260,542)**	(1,325,663)	**(1,065,121)**	Note 50
Lease rentals on operating lease	-	-	**-**	(215,422)	**(215,422)**	
Debt impairment	(505,528)	-	**(505,528)**	(14,221,255)	**(13,715,727)**	Note 50
Repairs and maintenance	-	-	**-**	(1,414,729)	**(1,414,729)**	Note 50
Bulk purchases	(17,242,449)	923,229	**(16,319,220)**	(19,585,257)	**(3,266,037)**	Note 50
Contracted Services	(6,101,061)	1,907,426	**(4,193,635)**	(8,253,957)	**(4,060,322)**	Note 50
Transfers and Subsidies	(1,337,232)	(83,048)	**(1,420,280)**	(1,937,414)	**(517,134)**	Note 50
General Expenses	(13,737,000)	(1,624,650)	**(15,361,650)**	(14,216,584)	**1,145,066**	Note 50
Total expenditure	**(72,581,235)**	**(346)**	**(72,581,581)**	**(126,144,912)**	**(53,563,331)**	
Operating deficit	**1,807**	**(346)**	**1,461**	**(18,165,189)**	**(18,166,650)**	
Loss on disposal of assets and liabilities	-	-	**-**	(190,083)	**(190,083)**	Note 50
Fair value adjustments	-	-	**-**	301,500	**301,500**	Note 50
Loss on biological assets and agricultural produce	-	-	**-**	(3,895)	**(3,895)**	
	-	**-**	**-**	**107,522**	**107,522**	
Deficit before taxation	**1,807**	**(346)**	**1,461**	**(18,057,667)**	**(18,059,128)**	

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
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1,807**	**(346)**	**1,461**	**(18,057,667)**	**(18,059,128)**	

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						
Inventories	9,693	10,523	**20,216**	23,444	**3,228**	
Operating lease asset	-	-	**-**	27,248	**27,248**	
Receivables from non - exchange transactions	17,874,593	(16,430,110)	**1,444,483**	3,144,757	**1,700,274**	Note 50
Consumer debtors from exchange transactions	2,325,036	4,551,029	**6,876,065**	4,174,641	**(2,701,424)**	Note 50
Current portion long-term receivables	1,615,122	(1,615,122)	**-**	-	**-**	
Call investments	2,563,725	(2,563,725)	**-**	-	**-**	
Cash and cash equivalents	-	4,245,323	**4,245,323**	2,593,141	**(1,652,182)**	Note 50
	24,388,169	**(11,802,082)**	**12,586,087**	**9,963,231**	**(2,622,856)**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	1,481,820	224,280	**1,706,100**	1,981,600	**275,500**	Note 50
Investment property	30,911,400	75,386,010	**106,297,410**	28,153,272	**(78,144,138)**	Note 50
Property, plant and equipment	490,830,647	135,790,706	**626,621,353**	551,914,900	**(74,706,453)**	Note 50
Intangible assets	44,791	(25,262)	**19,529**	3,872	**(15,657)**	
Investments	277,521	47,103	**324,624**	146,440	**(178,184)**	Note 50
	523,546,179	**211,422,837**	**734,969,016**	**582,200,084**	**(152,768,932)**	
Total Assets	**547,934,348**	**199,620,755**	**747,555,103**	**592,163,315**	**(155,391,788)**	
Liabilities						
Current Liabilities						
Finance lease obligation	193,182	242,450	**435,632**	467,596	**31,964**	
Payables from exchange transactions	12,125,982	3,979,203	**16,105,185**	24,887,464	**8,782,279**	Note 50
VAT payable	-	-	**-**	861,814	**861,814**	Note 50
Consumer deposits	378,657	31,996	**410,653**	439,533	**28,880**	
Employee benefit obligation	-	-	**-**	109,000	**109,000**	
Provision - Landfill site	1,136,000	1,607,806	**2,743,806**	-	**(2,743,806)**	
Long service awards	-	-	**-**	215,000	**215,000**	
Provision - Landfill sites	-	-	**-**	247,959	**247,959**	
	13,833,821	**5,861,455**	**19,695,276**	**27,228,366**	**7,533,090**	
Non-Current Liabilities						
Finance lease obligation	274,263	615,158	**889,421**	460,129	**(429,292)**	Note 50
Employee benefit obligation	3,629,976	426,024	**4,056,000**	3,059,000	**(997,000)**	Note 50
Provision - Landfill site	-	-	**-**	13,177,062	**13,177,062**	Note 50
Long service awards	-	-	**-**	1,381,000	**1,381,000**	Note 50
	3,904,239	**1,041,182**	**4,945,421**	**18,077,191**	**13,131,770**	
Total Liabilities	**17,738,060**	**6,902,637**	**24,640,697**	**45,305,557**	**20,664,860**	
Net Assets	**530,196,288**	**192,718,118**	**722,914,406**	**546,857,758**	**(176,056,648)**	

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
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	526,127,508	196,786,898	**722,914,406**	546,857,756	**(176,056,650)**	

TOKOLOGO MUNICIPALITY
(Registration number FS182)
Financial Statements for the year ended 30 June 2015

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						
Government - operating	47,470,899	-	**47,470,899**	-	**(47,470,899)**	
Ratepayers and other	21,695,000	(4,336,462)	**17,358,538**	-	**(17,358,538)**	
Interest income	1,007,408	-	**1,007,408**	-	**(1,007,408)**	
Government - capital	29,155,100	-	**29,155,100**	-	**(29,155,100)**	
	99,328,407	**(4,336,462)**	**94,991,945**	**-**	**(94,991,945)**	
Payments						
Employee costs	(57,454,241)	(10,413,893)	**(67,868,134)**	-	**67,868,134**	
Finance costs	(90,724)	(169,818)	**(260,542)**	-	**260,542**	
Transfer and Grants	-	(1,337,232)	**(1,337,232)**	-	**1,337,232**	
	(57,544,965)	**(11,920,943)**	**(69,465,908)**	**-**	**69,465,908**	
Net cash flows from operating activities	**41,783,442**	**(16,257,405)**	**25,526,037**	**-**	**(25,526,037)**	
Cash flows from investing activities						
Payments on capital assets	(29,155,100)	-	**(29,155,100)**	-	**29,155,100**	
Net increase/(decrease) in cash and cash equivalents	12,628,342	(16,257,405)	**(3,629,063)**	-	**3,629,063**	
Cash and cash equivalents at the beginning of the year	3,111,226	-	**3,111,226**	-	**(3,111,226)**	
Cash and cash equivalents at the end of the year	**15,739,568**	**(16,257,405)**	**(517,837)**	**-**	**517,837**	

TOKOLOGO MUNICIPALITY
(Registration number FS182)
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	3,624,028	-	3,624,028	-		3,624,028	3,888,529		264,501	107 %	107 %
Service charges	19,172,508	-	19,172,508	-		19,172,508	19,939,881		767,373	104 %	104 %
Investment revenue	1,456,000	-	1,456,000	-		1,456,000	5,848,215		4,392,215	402 %	402 %
Transfers recognised - operational	47,470,900	-	47,470,900	-		47,470,900	76,911,156		29,440,256	162 %	162 %
Other own revenue	859,606	-	859,606	-		859,606	1,391,942		532,336	162 %	162 %
Total revenue (excluding capital transfers and contributions)	**72,583,042**	**-**	**72,583,042**	**-**		**72,583,042**	**107,979,723**		**35,396,681**	**149 %**	**149 %**
Employee costs	(28,705,772)	(623,303)	(29,329,075)	-	-	(29,329,075)	(30,252,561)	-	(923,486)	103 %	105 %
Remuneration of councillors	(2,081,853)	-	(2,081,853)	-	-	(2,081,853)	(2,406,549)	-	(324,696)	116 %	116 %
Debt impairment	(505,529)	-	(505,529)			(505,529)	(14,221,255)	-	(13,715,726)	2,813 %	2,813 %
Depreciation and asset impairment	(2,609,798)	(500,000)	(3,109,798)			(3,109,798)	(32,315,521)	-	(29,205,723)	1,039 %	1,238 %
Finance charges	(260,542)	-	(260,542)	-	-	(260,542)	(1,325,663)	-	(1,065,121)	509 %	509 %
Bulk purchases	(17,242,449)	923,229	(16,319,220)	-	-	(16,319,220)	(19,585,257)	-	(3,266,037)	120 %	114 %
Transfers and grants	(1,337,232)	(83,048)	(1,420,280)	-	-	(1,420,280)	(1,937,414)	-	(517,134)	136 %	145 %
General expenditure	(19,838,060)	282,776	(19,555,284)	-	-	(19,555,284)	(24,100,692)	-	(4,545,408)	123 %	121 %
Total expenditure	**(72,581,235)**	**(346)**	**(72,581,581)**	**-**	**-**	**(72,581,581)**	**(126,144,912)**	**-**	**(53,563,331)**	**174 %**	**174 %**
Surplus/(Deficit)	**1,807**	**(346)**	**1,461**	**-**		**1,461**	**(18,165,189)**		**(18,166,650)**	**243,339)%**	**005,268)%**

TOKOLOGO MUNICIPALITY
(Registration number FS182)
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
Transfers recognised - capital	-	29,155,100	29,155,100	-		29,155,100	30,001,000		845,900	103 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**1,807**	**29,154,754**	**29,156,561**	**-**		**29,156,561**	**11,835,811**		**(17,320,750)**	**41 %**	**654,998 %**
Surplus/(Deficit) for the year	**1,807**	**29,154,754**	**29,156,561**	**-**		**29,156,561**	**11,835,811**		**(17,320,750)**	**41 %**	**654,998 %**

Capital expenditure and funds sources

	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
Total capital expenditure	-	(29,155,100)	(29,155,100)	-		(29,155,100)	(30,001,000)		(845,900)	103 %	DIV/0 %

TOKOLOGO MUNICIPALITY
(Registration number FS182)
Financial Statements for the year ended 30 June 2015

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2014				
Financial Performance				
Property rates				3,217,869
Service charges				18,881,867
Investment revenue				1,642,828
Transfers recognised - operational				46,094,396
Other own revenue				1,978,099
Total revenue (excluding capital transfers and contributions)				**71,815,059**
Employee costs	-	-	-	(22,726,980)
Remuneration of councillors	-	-	-	(2,179,765)
Debt impairment	-	-	-	(2,045,880)
Depreciation and asset impairment	-	-	-	(26,092,841)
Finance charges	-	-	-	(452,572)
Materials and bulk purchases	-	-	-	(20,153,684)
Transfers and grants	-	-	-	(1,597,456)
Other expenditure	-	-	-	(25,532,977)
Total expenditure	**-**	**-**	**-**	**(100,782,155)**
Surplus/(Deficit)				**(28,967,096)**
Transfers recognised - capital				31,153,200
Surplus (Deficit) after capital transfers and contributions				**2,186,104**
Surplus/(Deficit) for the year				**2,186,104**
Capital expenditure and funds sources				
Total capital expenditure				8,983,709

Accounting Policies

1. Presentation of Financial Statements

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

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

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingentobligations and commitments will occur in the ordinary course of business. For an analysis of managements assumptions supporting the going concern assumption refer to note 44.

The municipal entity has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the entity has implemented a system to enhance the revenue collection and cash flow by improving on the debt recoverability processes.

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

Value in use of cash generating assets:
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as inflation and interest.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

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

Allowance for doubtful debts

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

Accounting Policies

1.4 Biological assets that form part of an agricultural activity

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

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of milk is determined based on market prices in the local area.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

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

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

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

1.5 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 any accumulated impairment losses.

Item	**Useful life**
Property - land	indefinite

1.6 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.

Subsequent measurement:

Cost model

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for items of property, plant and equipment which was acquired prior to 1 July 2008, which are carried at provisional amounts.

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

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

Item	**Average useful life**
Land and Buildings	
• Buildings	30 years
• Land	Indefinite
•	
Furniture and fixtures	
• Furniture and fittings	3 - 30 years
Motor vehicles	
• Other vehicles	5 years
• Specialised vehicles	5 - 10 years
Office equipment	
• Office Equipment	3 - 30 years

Accounting Policies

1.6 Property, plant and equipment (continued)

IT equipment	
• Computure equipment	2 - 3 years
Infrastructure	
• Water, electricity, sewerage, roads and paving	1 - 20 years
Community	
• Buildings, recreational facilities and security	1 - 30 years
Other property, plant and equipment	
• Other property, plant and equipment	3 - 30 years
• Watercraft	20 years
• Specialised plant and equipment	10 - 15 years
• Bins and containers	5 years

1.7 Intangible assets

Initial recognition

Intangible assets are initially recognised at cost.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

Accounting Policies

1.7 Intangible assets (continued)

Other intangible assets that are acquired by the municipal entity and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

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

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. However, servitudes that are created through an agreement (contract) are recognised as intangible assets.

Subsequent expenditure

Expenditure on Intangible assets shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. All other expenditure, including expenditure on internally generated goodwill and customer lists, is recognised in surplus or deficit as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Item	Useful life
Licenses and franchises	1 years
Computer software, other	3 years

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

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Intangible assets are derecognised on disposal or when no future economic benefits or services potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in the statement of financial performance when the asset is derecognised.

Intangible assets are derecognised:

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

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.

Accounting Policies

1.8 Financial instruments (continued)

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.

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:
- 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.

1.8 Financial instruments (continued)

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:
- 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 in accordance with paragraph 17 of GRAP 104; 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:

1.8 Financial instruments (continued)

Class	Catergory
Other financial assets	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Consumer 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	Catergory
Other non-current liabilities	Financial liability measured at amortised cost
Other current liabilities	Financial liability measured at amortised cost
Lease liabilities	Financial liability measured at amortised cost
Value Added Tax	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at cost
Payables from exchange transactions	Financial liability measured at amortised cost
Long service awards	Financial liability measured at fair value
Unspent conditional grants	Financial liability measred at cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

1.8 Financial instruments (continued)

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

1.8 Financial instruments (continued)

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

1.8 Financial instruments (continued)

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

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

Financial liabilities

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

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

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

Presentation

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

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounting Policies

1.9 Tax

Value added tax (VAT)

The municipal entity accounts for VAT on the cash basis. The municipal entity is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipal entity accounts for VAT on a monthly basis.

1.10 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

Any contingent rents are 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.

Operating leases - lessee

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

Accounting Policies

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

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.12 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.12 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.

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Accounting Policies

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

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.

Redesignation

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

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

1.14 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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 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.

Actuarial gains and losses are recognised in the statement of financial performance in the period that they occur.

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..

Actuarial assumptions are included in the note of defined benefit obligation plan.

Accounting Policies

1.15 Provisions

Provisions are recognised when:

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

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

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

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

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

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

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

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.

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Rendering of services

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

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

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

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

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

Service charges

Service charges relating to distribution of electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on historical information.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 Sep – 30 April) and winter (1 May to 31 Aug).The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

1.17 Revenue from non-exchange transactions

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

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

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

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipal entity and 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.

Recognition

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

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

Measurement

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

When, as a result of a non-exchange transaction, the municipal entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity,
- 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 municipal entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on thebasis 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 program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available

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

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

Other grants and donations

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

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

1.18 Turnover

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

1.19 Investment income

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

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is suspended.

Accounting Policies

1.20 Borrowing costs (continued)

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

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

1.22 Unauthorised expenditure

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

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

Accounting Policies

1.24 Irregular expenditure (continued)

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

1.25 Use of estimates

The preparation of 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 financial statements are disclosed in the relevant sections of the 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.

Estimates in the financial statements include but are not limited to the following:

Depreciation

- Expected recovery of the carrying amount through use may differ materially from the actual outcome.

Bad debts

- Influence of economic conditions including unemployment.

Prepaid Electricity

- Unforeseen economic- and weather conditions.

Leave accrual

- Changes in the planned and actual leave taken and the staff turnover.

Long service awards

- Possible resignations or new appointments as well as movements in CPI and discount rates used.

1.26 Investments

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

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

Accounting Policies

1.26 Investments (continued)

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.27 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 2013/07/01 to 2014/06/30.

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

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

1.28 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.

Accounting Policies

1.29 Commitments

The term ‘commitments’ is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the entity of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made. The notes to the financial statements must disclose the nature and amount of each material individual and each material class of capital expenditure commitment as well as non-cancelable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

1.30 Events after the reporting date

Events after the reporting date are those that occur between the end of the reporting period and when the financial statements are authorized for issue.

Events after the end of reporting period may be classified into two types:
Adjusting Events - Those events that provide further evidence about conditions that existed at the end of reporting period.
Non-Adjusting Events - Those events that reflect conditions that arose after the end of reporting period.

If any events occur after the end of the reporting period that provide further evidence of conditions that existed at the end of reporting period (i.e. Adjusting Events), then the financial statements must be adjusted accordingly.

The municipality does not adjust the financial statements in respect of those events after the end of reporting period that reflect conditions that arose after the end of reporting period (i.e. Non-Adjusting Events).

The nature and estimate of the financial impact of material non-adjusting events shall be disclosed in the financial statements
.

Non-Adjusting Events are considered material if they could influence the economic and financial decisions of the users of financial statements.

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 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 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:
- Control;

Notes to the Financial Statements

2. New standards and interpretations (continued)
- 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 financial statements.

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

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

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

Figures in Rand	2015	2014

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	168,252	539,584
Short-term deposits	2,424,489	3,705,339
Cashier's Float	400	400
	2,593,141	**4,245,323**

Short- term deposits consists of:

FNB - 12 months fixed deposit - 71037990209	10,145	10,145
FNB - Daily money market investment - 62290902678	10,000	347,175
FNB - Daliy money market transactor - 62368885376	-	32,186
FNB - 32 Day Notice - 74037601777	55,591	53,663
FNB - 32 Day Notice - 74037631683	134,140	128,636
FNB - 7 Day Notice - 74368883317	9,324	1,027,326
Standard bank - 32 Day Deposit - 04886693	2,205,289	2,106,208
	2,424,489	**3,705,339**

Short-term deposits consists of the following short-term investments with First National Bank and Standard Bank. The details and interest earned on these investments are set out below:

- FNB Fixed deposit account with an interest rate of 5.9%

- FNB Money Market Investor account with an interet rate of 4.15%

- FNB Money Market Transactor account with an interest rate of 4.15%

- FNB 32 Day Notice account with an interest rate of 3.55%

- FNB 32 Day Notice account with an interest rate of 3.75%

- FNB 7 Day Notice account with an interest of 5.65%

- Standard bank 32 Day notice account with an interest of 4.65%

Notes to the Financial Statements

Figures in Rand	2015	2014

3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
First National Bank - Current account - 62021285748	168,252	539,584	788,437	168,252	539,584	788,437
First National Bank - Money market investment - 62290902678	10,000	347,175	29,028	10,000	347,175	29,028
First National Bank - 7 Day Investment - 74368883317	9,324	1,027,326	66,227	9,324	1,027,326	66,227
First National Bank - 32 Day Deposit - 74037651683	134,140	128,636	124,061	134,140	128,636	124,061
First National Bank - Fixed Deposit - 71037990209	10,145	10,145	10,145	10,145	10,145	10,145
First National Bank - Fixed Deposit - 74037601777	55,591	53,663	52,076	55,591	53,663	52,076
Standard Bank - 32 Day Deposit - 04886693	2,205,289	2,106,208	2,022,161	2,205,289	2,106,208	2,022,161
First National Bank - Money Market transactor - 6238885376	-	32,186	128,678	-	32,186	128,678
Total	**2,592,741**	**4,244,923**	**3,220,813**	**2,592,741**	**4,244,923**	**3,220,813**

4. Consumer receivables from exchange transactions

	2015	2014
Gross balances		
Rates	14,755,290	12,228,951
Electricity	6,572,351	5,702,860
Water	2,423,480	1,620,875
Sewerage	25,817,004	21,563,940
Refuse	17,125,468	14,324,881
Housing rental	969,328	729,428
Sundry services	7,301,576	7,315,054
	74,964,497	**63,485,989**
Less: Allowance for impairment		
Rates	(13,407,548)	(10,755,420)
Electricity	(4,892,397)	(3,840,429)
Water	(2,222,275)	(1,380,634)
Sewerage	(25,460,537)	(20,019,808)
Refuse	(16,927,700)	(13,354,473)
Housing rental	(930,783)	(442,301)
Sundry services	(6,948,616)	(6,816,859)
	(70,789,856)	**(56,609,924)**
Net balance		
Rates	1,347,742	1,473,531
Electricity	1,679,954	1,862,431
Water	201,205	240,241
Sewerage	356,467	1,544,132
Refuse	197,768	970,408
Housing rental	38,545	287,127
Sundry services	352,960	498,195
	4,174,641	**6,876,065**

Notes to the Financial Statements

Figures in Rand	2015	2014

4. Consumer receivables from exchange transactions (continued)

Included in above is receivables from exchange transactions		
Electricity	6,572,351	5,702,860
Water	2,423,480	1,620,875
Sewerage	25,817,004	21,563,940
Refuse	17,125,468	14,324,881
Sundry services	7,301,576	7,165,446
Housing rental	969,328	729,427
	60,209,207	**51,107,429**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	14,755,290	12,228,950
Sundry services	-	149,608
	14,755,290	**12,378,558**

Net balance	**74,964,497**	**63,485,987**

Rates		
Current (0 -30 days)	296,464	102,693
31 - 60 days	250,937	122,649
61 - 90 days	244,565	128,518
91 - 120 days	210,198	121,174
121 - 365 days	5,591,031	2,109,582
> 365 days	8,162,095	9,644,334
	14,755,290	**12,228,950**

Electricity		
Current (0 -30 days)	889,139	301,788
31 - 60 days	441,509	250,694
61 - 90 days	382,703	156,078
91 - 120 days	312,524	137,669
121 - 365 days	1,931,903	950,229
> 365 days	2,614,563	3,906,401
	6,572,341	**5,702,859**

Water		
Current (0 -30 days)	122,744	66,201
31 - 60 days	88,510	64,686
61 - 90 days	93,462	55,972
91 - 120 days	87,672	57,318
121 - 365 days	623,535	414,347
> 365 days	1,407,557	962,350
	2,423,480	**1,620,874**

Sewerage		
Current (0 -30 days)	452,968	224,310
31 - 60 days	407,428	220,122
61 - 90 days	396,992	193,599
91 - 120 days	391,543	193,234
121 - 365 days	3,034,204	1,536,877
> 365 days	21,133,869	19,195,798
	25,817,004	**21,563,940**

Notes to the Financial Statements

Figures in Rand	2015	2014

4. Consumer receivables from exchange transactions (continued)

Refuse		
Current (0 -30 days)	294,456	145,691
31 - 60 days	264,270	142,995
61 - 90 days	256,981	126,611
91 - 120 days	253,885	127,409
121 - 365 days	1,968,059	1,001,843
> 365 days	14,087,817	12,780,332
	17,125,468	**14,324,881**

Business service levies		
Current (0 -30 days)	11,907	2,888
31 - 60 days	3,090	2,859
61 - 90 days	1,687	1,631
91 - 120 days	1,271	-
121 - 365 days	96,360	6,210
> 365 days	7,187,059	7,301,466
	7,301,374	**7,315,054**

Housing rental		
Current (0 -30 days)	25,451	13,487
31 - 60 days	25,146	18,016
61 - 90 days	25,419	18,182
91 - 120 days	25,030	16,414
121 - 365 days	194,078	126,134
> 365 days	674,203	537,194
	969,327	**729,427**

Notes to the Financial Statements

Figures in Rand	2015	2014

4. Consumer receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	1,553,001	600,120
31 - 60 days	1,126,283	571,406
61 - 90 days	1,075,191	484,992
91 - 120 days	977,192	471,832
121 - 365 days	7,464,881	4,547,212
> 365 days	50,486,366	38,725,942
	62,682,914	45,401,504
Less: Allowance for impairment	(61,345,838)	(43,015,185)
	1,337,076	**2,386,319**
Industrial/ commercial		
Current (0 -30 days)	370,693	199,566
31 - 60 days	200,160	175,711
61 - 90 days	184,356	164,338
91 - 120 days	132,251	156,041
121 - 365 days	5,059,645	1,165,601
> 365 days	2,079,933	12,150,749
	8,027,038	14,012,006
Less: Allowance for impairment	(7,572,014)	(13,594,738)
	455,024	**417,268**
National and provincial government		
Current (0 -30 days)	169,437	106,151
31 - 60 days	154,447	129,415
61 - 90 days	142,472	81,297
91 - 120 days	172,681	69,414
121 - 365 days	914,644	788,195
> 365 days	2,700,864	6,933,001
	4,254,545	8,107,473
Less: Allowance for impairment	(1,872,004)	-
	2,382,541	**8,107,473**
Total		
Current (0 -30 days)	2,093,131	857,057
31 - 60 days	1,480,890	822,022
61 - 90 days	1,401,809	680,591
91 - 120 days	1,282,124	653,218
121 - 365 days	13,439,170	6,145,224
> 365 days	55,267,163	54,327,877
	74,964,287	63,485,989
Less: Allowance for impairment	(70,789,856)	(56,609,924)
	4,174,431	**6,876,065**
Less: Allowance for impairment		
> 365 days	(70,789,856)	(56,609,924)

Notes to the Financial Statements

Figures in Rand	2015	2014

4. Consumer receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(56,609,924)	(54,724,980)
Contributions to allowance	(14,179,932)	(1,884,944)
	(70,789,856)	**(56,609,924)**

Consumer debtors pledged as security

No consumer debtors were pledged as security in the current or prior financial period.

Fair value of consumer debtors

Consumer debtors are reflected net of the provision for doubtful debt and the effect of discounting. The interest rate used in discounting is the prime rate at period end adjusted for CPI applicable to the public sector.

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables mentioned above. The municipality does not hold any collateral as security.

Fair value of the consumer debtors approximates the carrying value at year end.

5. Inventories

Inventories	23,444	20,216

Inventories comprise of water.

6. Operating lease receivable

Lessor - Rental Cellphone sites / Camp Rentals	27,248	28,028
	27,248	**28,028**

Minimum lease payments		
- within one year	248,872	521,308
-in second year to fifth year inclusive	121,752	254,396
	370,624	**775,704**

The municipality leases various pieces of land under cancelable operating leases to various individuals and / or institutions. The lease agreements have escalations between 0% and 10% per annum with the agreements terms being between 1 and 10 years. Rental income for these agreements have been taken into account during the calculation of the deferred lease. There are no purchase options. There was no contingent rent during the year.

Notes to the Financial Statements

Figures in Rand	2015	2014

7. Receivables from non - exchange transactions

	2015	2014
Accrued Income	8,428	-
Camp rentals	1,119,889	754,160
Department of Water Affairs	993,902	-
Payroll debtors	53,139	63,860
Prepaid expenses	241,544	597,599
Sundry debtors	113,925	28,864
Traffic fine debtors	613,930	276,800
Provision for impairment receivables from non- exchange transactions	(1,733,819)	(276,800)
	1,410,938	**1,444,483**

8. Biological assets that form part of an agricultural activity

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets - Game	1,981,600	-	1,981,600	1,706,100	-	1,706,100

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

	Opening balance	Decreases due to harvest / sales	Gains or losses arising from changes in fair value	Total
Biological assets - Game	1,706,100	(26,000)	301,500	1,981,600

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

	Opening balance	Disposals	Gains or losses arising from changes in fair value	Total
Biological assets - Game	1,408,720	(152,260)	449,640	1,706,100

Non - Financial information

Quantities of each biological asset

	2015	2014
Blesbuck	378	330
Burchell's Zebra	26	24
Red Hartebeest	156	147
Ostrich	8	8
Eland	18	15
Gemsbok	180	74
Impala	41	115
Springbok	404	347
Kudu	1	2
Giraffe	6	6
	1,218	**1,068**

Figures in Rand	2015	2014

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

Methods and assumptions used in determining fair value

Tokologo Municipality is engaged in game farming. The balance sheet valuation of biological assets is based on an actual count and the unit values on market prices.

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	28,153,272	-	28,153,272	28,153,272	-	28,153,272

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	28,153,272	28,153,272

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	28,153,272	28,153,272

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date. Investment property comprises grazing fields commonly described as camp sites. Their main purpose is for renting out to livestock farmers for grazing.

The investment property is open stands and campsites and were not valued by an independent valuer.

Pledged as security

No investment property is pledged as security.

Notes to the Financial Statements

Figures in Rand	2015	2014

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	37,115,306	-	37,115,306	36,876,553	-	36,876,553
Infrastructure	579,229,228	(144,109,389)	435,119,839	566,754,837	(115,447,160)	451,307,677
Community	28,051,459	(195,148)	27,856,311	27,748,464	(167,270)	27,581,194
Finance lease assets	1,434,262	(604,060)	830,202	1,428,449	(129,626)	1,298,823
Capital work in progress	39,401,582	-	39,401,582	27,966,747	-	27,966,747
Other property, plant and equipment	22,618,784	(11,027,124)	11,591,660	23,169,709	(8,413,484)	14,756,225
Total	**707,850,621**	**(155,935,721)**	**551,914,900**	**683,944,759**	**(124,157,540)**	**559,787,219**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	36,876,553	-	-	238,753	-	37,115,306
Infrastructure	451,307,677	-	-	12,474,392	(28,662,230)	435,119,839
Community	27,581,194	302,995	-	-	(27,878)	27,856,311
Finance lease assets	1,298,823	60,850	-	-	(529,471)	830,202
Capital work in progress	27,966,747	24,147,980	-	(12,713,145)	-	39,401,582
Other property, plant and equipment owned	14,756,225	136,580	(220,860)	-	(3,080,285)	11,591,660
	559,787,219	**24,648,405**	**(220,860)**	**-**	**(32,299,864)**	**551,914,900**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	36,862,553	14,000	-	-	-	36,876,553
Infrastructure	309,240,537	-	-	164,834,940	(22,767,800)	451,307,677
Community	27,547,898	61,174	-	-	(27,878)	27,581,194
Finance lease assets	100,361	1,370,267	(16,118)	-	(155,687)	1,298,823
Capital work in progress	158,352,030	34,449,657	-	(164,834,940)	-	27,966,747
Other property, plant and equipment owned	10,497,503	7,347,105	(3,522)	-	(3,084,861)	14,756,225
	542,600,882	**43,242,203**	**(19,640)**	**-**	**(26,036,226)**	**559,787,219**

Assets subject to finance lease (Net carrying amount)

	2015	2014
Other property, plant and equipment	830,202	1,298,823

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

Notes to the Financial Statements

Figures in Rand	2015	2014

11. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Licenses and franchises	69,738	(65,866)	3,872	132,459	(112,930)	19,529

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Licenses and franchises	19,529	-	(15,657)	3,872

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Licenses and franchises	76,146	(56,617)	19,529

12. Investments

	2015	2014
Designated at fair value		
Listed shares	146,440	324,624
At fair value through surplus or deficit- designated		
Non-current assets		
At fair value through surplus or deficit - designated	146,440	324,624

13. Consumer deposits

	2015	2014
Electricity	338,862	320,564
Water	94,978	87,329
Hall	5,293	2,360
Housing rental	400	400
	439,533	**410,653**

Fair value approximates the carrying value of the vendor deposits.

Notes to the Financial Statements

Figures in Rand	2015	2014

14. Finance lease obligation

Minimum lease payments due		
- within one year	585,680	630,215
- in second to fifth year inclusive	502,275	1,046,665
Present value of minimum lease payments	**1,087,955**	**1,676,880**
Present value of minimum lease payments due		
- within one year	467,596	435,632
- in second to fifth year inclusive	460,129	889,421
	927,725	**1,325,053**
Non-current liabilities	460,129	889,421
Current liabilities	467,596	435,632
	927,725	**1,325,053**

The average lease term is 3 years and the average effective borrowing rate is 9% (2013: 8.5%). The Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

15. Payables from exchange transactions

Trade payables	15,730,541	7,949,341
Payments received in advanced	1,592,866	836,045
Unreceipted deposits	432,295	161,955
Accrued leave pay	3,959,041	2,780,745
Other payables	1,055,199	1,139,094
Accrued Bonus	578,034	432,266
Retention	1,539,486	3,475,838
	24,887,462	**16,775,284**

The fair values approximate carrying amount.

Figures in Rand	2015	2014

16. Provision - Landfill site

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Rehabitation of Landfill Sites	12,819,031	358,031	13,177,062

Reconciliation of provision - landfill site - 2014

	Opening Balance	Change in discount factor	Total
Rehabitation of Landfill Sites	13,060,851	(241,820)	12,819,031

Land Fill Site - Rehabilitation

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 futher pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of National Environmental Management: Waste Act, Act 59 of 2008.

The expected time of rehabilitation is 10 years from now in 2025.

The following key assumptions used;

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and term 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. The was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 30 June 2015.

The consumer price inflation of 6.69% p.a is obtained from the differential between the long term market yields on the indexlinded bond (the R197 at 1.68% p.a) consistent with the estimated term of the liabilities and those of nominal bond (the R 186 at 8.45% p.a).

Key Financial assumption		
Discount rate	8.83%	8.51%
Consumer price inflation	6.66%	6.82%
Net discount rate	2.03%	1.58%

Non-current liabilities	13,177,062	12,819,031
Current liabilities	247,959	302,995
	13,425,021	**13,122,026**

Notes to the Financial Statements

Figures in Rand	2015	2014

17. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by finding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other postretirement benefits are provided to these emloyees.

The most recent actuarial valuations of plan 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 obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth

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

	2015	2014
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3,168,000)	(3,045,000)
Non-current liabilities	(3,059,000)	(2,964,000)
Current liabilities	(109,000)	(81,000)
	(3,168,000)	**(3,045,000)**

The fair value of plan assets includes:

The Liability in respect of past service has been estimated as follows:

	2015	2014
South African equities	3,168,000	3,045,000

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

	2015	2014
Opening balance	3,045,000	3,444,000
Benefits paid	(238,867)	(240,227)
Net expense recognised in the statement of financial performance	361,867	(158,773)
	3,168,000	**3,045,000**

Net expense recognised in the statement of financial performance

	2015	2014
Current service cost	21,000	21,000
Interest cost	264,000	264,000
Actuarial (gains) losses	76,867	(443,773)
	361,867	**(158,773)**

Calculation of actuarial gains and losses

	2015	2014
Actuarial (gains) losses – Obligation	76,867	(443,773)

Figures in Rand	2015	2014

17. Employee benefit obligations (continued)

Changes in the fair value of plan assets are as follows:

The municipality expects to contribute R - to its defined benefit plans in the following financial year.

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield Curve	8.94 %
Expected rate of return on assets	Difference between nominal and yield curves	7.05 %
Expected rate of return on reimbursement rights	CPI + 1%	8.05 %
Actual 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 approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other assumptions

Effect on the aggregate of the service cost and interest cost	65	63

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

	2015	2014	2013	2012	2011
Plan assets	3,168,000	3,045,000	3,044,000	-	-

18. Long service awards

The municipality operates as unfunded deficit benefit plan for all its employees. Under the plan, a Long-Service award ispayable 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.

This is the present value of the total Long-Term Service Awards expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected Long-Term Service Awards for current employees.

The most recent actuarial valuations on the Long-Term Service Awards were carried out at 30 June 2015 by ZAQEN Actuaries (Pty) Ltd

Reconciliation of long term service awards - 2015	Opening Balance	Actuarial (Gains)\Losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long term service award	1,236,000	270,320	(160,320)	148,000	102,000	1,596,000
Subtotal	1,236,000	270,320	(160,320)	148,000	102,000	1,596,000
	1,236,000	**270,320**	**(160,320)**	**148,000**	**102,000**	**1,596,000**

Notes to the Financial Statements

Figures in Rand	2015	2014

18. Long service awards (continued)

Reconciliation of long term service awards - 2014	Opening Balance	Actuarial (Gains)\Losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long term service awards	1,136,000	(50,558)	(99,442)	148,000	102,000	1,236,000
Subtotal	1,136,000	(50,558)	(99,442)	148,000	102,000	1,236,000
	1,136,000	**(50,558)**	**(99,442)**	**148,000**	**102,000**	**1,236,000**

	2015	2014
Non - current liabilities	1,381,000	1,092,000
Current liabilities	215,000	144,000
	1,596,000	**1,236,000**

The long service awards liability arises from Tokologo Local Municipality being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC. This agreement is effective 1 July 2010.

The long service awards plan is a defined benefit plan. At year end 134 (2013 - 148) employees were eligible for long service bonus.

The current service cost for the ensuing year is estimated to be R 172 000 (2013 - R 148 000) whereas the interest cost is estimated to be R 102 000 (2013 - R 85 000).

As at the valuation date, the long service leave 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 awards liability are listed below:	2015	2014
Discount rate	Yield Curve	7.96%
Salary increase	Equal to CPI + 1%	7.33%
Net Discount rate	Yield Curve Based	0.59%
Mortality	SA85-90	SA85-90
Normal Retirement age	65	65
Average Retirement age	63	63
Consumer Price Inflation (CPI)	Difference between nominal and real yield curve	6.33%

Present value of unfunded obligations:

	2015	2014
Present value of unfunded obligations	(1,596,000)	(1,236,000)

Reconciliation of present value of fund obligations

	2015	2014
Present value of fund obligations at the beginning of the year	1,236,000	1,136,000
Current service costs	148,000	148,000
Long service awards paid	(160,320)	(99,442)
Interest costs	102,000	102,000
Actuarial gains / (losses)	270,320	(50,558)
	1,596,000	**1,236,000**

18. Long service awards (continued)

Actuarial gain:

The main reasons for the actuarial gain can be attributed to the following factors:

1. **Actual versus expected experience** – Over the past financial year, there were various changes in the membership data and fewer members left service than allowed for. Salary increases were also higher than allowed for in the previous valuation. This, along with some other smaller changes, resulted in an increase in liability of around **R 243,00**0..

2. **Changes in economic variables** – In this year's valuation we used the nominal and real zero curves as at 30 June 2015 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. As a result the interest rates, bond yields and inflation figures changed significantly. This resulted in a decrease in liability of around **R 5,000**.

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% increase/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 the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

The effect of higher and lower withdrawal rates have been illustrated by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	1,718,000	1,596,000	1,491,000
Current Service Cost	276,000	247,000	223,000
Interest Cost	164,000	152,000	141,000
	2,158,000	**1,995,000**	**1,855,000**

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 retirees.

The effect of a 1% p.a. change in the normal salary inflation assumption was tested. The effect is as follows:

Normal salary inflation	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	1,494,000	1,596,000	1,709,000
Current Service Cost	228,000	247,000	268,000
Interest Cost	141,000	152,000	163,000
	1,863,000	**1,995,000**	**2,140,000**

Notes to the Financial Statements

Figures in Rand	2015	2014

19. Service charges

Sale of electricity	12,133,238	11,760,212
Sale of water	1,461,908	1,209,407
Sewerage and sanitation charges	3,830,443	3,599,202
Refuse removal	2,514,292	2,313,046
	19,939,881	**18,881,867**

20. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	309,001	311,018
Rental of camps	480,868	482,070
	789,869	**793,088**

21. Interest income

Interest revenue		
Interest from short term deposits - Banks	534,886	501,984
Interest charged on consumer receivables from exchange and non-exchange transactions	5,313,329	1,140,844
	5,848,215	**1,642,828**

The amount included in interest revenue arising from exchange transactions amounted to R 4,095,292 (2014: R 805 996).

22. Property rates

Rates received

Residential	10,761,595	3,857,263
Less: Income forgone	(6,873,066)	(639,394)
	3,888,529	**3,217,869**

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0,000257 (2014: 0,0039) is applied to property valuations to determine assessment rates. Rebates of 10% (2014: 10%) are granted to agricultural entities.

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Rates are levied on an a monthly basis. Interest at prime plus 2% per annum (2014: 11%) is levied on rates outstanding.

Valuations

23. Revenue

Rendering of services	205,523	109,741
Service charges	19,939,881	18,881,867
Rental of facilities and equipment	789,869	793,088
Interest received - investment	5,848,215	1,642,828
Property rates	3,888,529	3,217,869
Government grants & subsidies	76,911,156	77,247,596
Fines, Penalties and Forfeits	396,550	331,400
	107,979,723	**102,224,389**

Notes to the 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:		
Service charges	19,939,881	18,881,867
Rendering of services	205,523	109,741
Rental of facilities and equipment	789,869	793,088
Interest received - investment	5,848,215	1,642,828
	26,783,488	**21,427,524**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,888,529	3,217,869
Transfer revenue		
Government grants & subsidies	76,911,156	77,247,596
Fines, Penalties and Forfeits	396,550	331,400
	81,196,235	**80,796,865**

Figures in Rand	2015	2014

24. Employee related costs

Salaries and wages	21,831,684	17,121,742
Performance and other bonus	1,297,106	981,310
Medical aid - company contributions	1,139,524	851,376
UIF	182,101	149,648
SDL	241,057	189,770
Leave pay provision charge	1,291,513	577,090
Pension	2,352,835	1,795,774
Travel allowance	1,034,553	1,019,601
Employee benefits	882,188	40,669
	30,252,561	**22,726,980**

Remuneration of MO Masisi (Chief Finance Officer)

Annual Remuneration	746,016	655,998
Car Allowance	238,000	216,000
Contributions to UIF, Medical and Pension Funds	11,230	10,149
	995,246	**882,147**

Remuneration of MJ Chakane (Technical Manager)

Annual Remuneration	650,921	544,485
Car Allowance	150,000	227,500
Contributions to UIF, Medical and Pension Funds	11,230	10,683
Housing Allowance	120,000	111,000
Other	45,432	44,756
	977,583	**938,424**

Remuneration of KJ Motlhale (Municipal Manager)

Annual Remuneration	906,320	829,736
Car Allowance	221,305	189,353
Contributions to UIF, Medical and Pension Funds	12,392	11,401
	1,140,017	**1,030,490**

Figures in Rand	2015	2014

24. Employee related costs (continued)

Remuneration of MG Maphobole (Corporate Services)

Annual Remuneration	746,368	705,272
Car Allowance	220,000	181,500
Contributions to UIF, Medical and Pension Funds	10,452	9,816
	976,820	**896,588**

25. Remuneration of councillors

Mayor / Speaker	734,478	631,391
Councillors	1,672,071	1,548,374
	2,406,549	**2,179,765**

In-kind benefits

The Mayor is provided with an office with secreterial support and an official vehicle with a driver at a cost of the Council.

26. Depreciation and amortisation

Property, plant and equipment	32,299,864	26,036,224
Intangible assets	15,657	56,617
	32,315,521	**26,092,841**

Refer to note 9 for a breakdown per category of the depreciation for property, plant and equipment.

27. Finance costs

Trade and other payables	1,128,031	410,200
Finance leases	197,632	42,372
	1,325,663	**452,572**

28. Debt impairment

Provision for bad debts	14,221,255	2,045,880

29. Repairs and maintenance

Building, ground and fences	8,400	474,189
Furniture and equipment	351,678	636,288
General Maintenance	161,494	614,253
Infrastructure	437,333	868,433
Vehicles	455,824	412,735
	1,414,729	**3,005,898**

30. Bulk purchases

Electricity	19,583,272	20,164,207
Water	1,985	(10,523)
	19,585,257	**20,153,684**

Notes to the Financial Statements

Figures in Rand	2015	2014

31. Contracted services

Legal Fees	683,010	859,521
Specialist Services	7,570,947	7,951,488
	8,253,957	**8,811,009**

32. Grants and subsidies paid

Other subsidies

Free Basic Electricity	239,359	228,647
Indigents Sanitation	392,882	236,855
Indigents Sewerage	450,563	480,602
Indigents Refuse	605,310	475,445
Indigents Water	249,300	175,907
	1,937,414	**1,597,456**

33. General expenses

Accomodation	827,230	529,817
Assets expensed	241,000	27,904
Advertising	116,106	313,298
Audit committee	263,263	110,252
Auditors remuneration	2,990,829	2,879,817
Bank charges	290,391	257,870
Chemicals	193,000	-
Cleaning	12,000	164,357
Community development and training	39,917	130,967
Consumables	3,103	1,776
Educational Support	728,863	-
Entertainment	23,576	55,856
Electricity	-	75,724
Equipment hire	111,280	-
Fuel and oil	1,366,498	1,192,133
HIV/AIDS Programme	4,825	15,070
IDP/LED	-	39,047
Insurance	235,906	250,599
Miscellaneous office expenses	204,338	560,903
Paupers	30,500	12,400
Penalties	72,087	102,579
Postage and courier	25,227	26,207
Printing and stationery	542,128	740,693
Protective clothing	210,561	146,035
Refreshments	45,401	21,607
Refuse	8,660	17,268
Stipends	537,884	349,500
Subscriptions and membership fees	494,999	454,475
Training	367,833	1,294,837
Telephone and fax	761,035	755,621
Transport services rental expense	508,650	917,050
Travel - local	2,959,494	2,031,203
Water	-	6,802
	14,216,584	**13,481,667**

Notes to the Financial Statements

Figures in Rand	2015	2014

34. Fair value adjustments

Biological assets - (Fair value model)	301,500	449,640
Other financial assets		
• Other financial assets (Designated as at FV through P&L	-	57,222
	301,500	**506,862**

35. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Movement during the year

Additions during the year	25,332,252	33,693,200
Income recognition during the year	(25,332,252)	(33,693,200)
	-	**-**

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

Notes to the Financial Statements

Figures in Rand	2015	2014

36. Government grants and subsidies

Operating grants		
LG SETA	284,822	36,276
Municipal Systems Improvements Grant	930,000	890,000
Financial Management Grant	1,800,000	1,650,000
Equitable Share	43,895,334	43,518,120
	46,910,156	46,094,396
Capital grants		
INEP	2,000,000	-
Municipal Infrastructure Grant	16,918,000	20,562,000
Department of Water and Forestry (DWAF)	10,000,000	9,591,200
Expanded Public Works Programme Incentive Grant	1,083,000	1,000,000
	30,001,000	31,153,200
	76,911,156	**77,247,596**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members as well as subsidise the municipality's operations.

All registered indigents receive a monthly subsidy from the Equitable Share Grant.

Municipal Infrastructure Grant

Current-year receipts	16,918,000	20,562,000
Conditions met - transferred to revenue	(16,918,000)	(20,562,000)
	-	-

Conditions met - transfered to revenue (see notes 34 & 35)

LG SETA

Current-year receipts	284,822	36,276
Conditions met - transferred to revenue	(284,822)	(36,276)
	-	-

Conditions met - transfered to revenue (see notes 34 & 35

Municipal Systems Improvement Grant

Current-year receipts	930,000	890,000
Conditions met - transferred to revenue	(930,000)	(890,000)
	-	-

Conditions met - transfered to revenue (see notes 34 & 35)

Financial Management Grant

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

Conditions met - transfered to revenue (see notes 36 & 37)

Figures in Rand	2015	2014

36. Government grants and subsidies (continued)

Expanded Public Works Programme Incentive Grant

Current-year receipts	1,083,000	1,000,000
Conditions met - transferred to revenue	(1,083,000)	(1,000,000)
	-	-

Conditions met - transfered to revenue (see notes 34 & 35)

Department of Water and Forestry (Bulk Water) Grant

Current-year receipts	10,000,000	9,591,200
Conditions met - transferred to revenue	(10,000,000)	(9,591,200)
	-	-

Conditions met - transfered to revenue (see notes 34 & 35)

INEP

Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(2,000,000)	-
	-	-

Conditions met - transfered to revenue (see notes 34 & 35)

Equitable Shares

Current-year receipts	43,895,334	43,518,120
Conditions met - transferred to revenue	(43,895,334)	(43,518,120)
	-	-

Conditions met - transfered to revenue (see notes 34 & 35)

37. Gains or losses on biological assets

Gain or loss on sale of biological assets	(3,895)	(40,691)

Notes to the Financial Statements

Figures in Rand	2015	2014

38. Cash generated from operations

(Deficit) surplus	(18,057,667)	2,186,104
Adjustments for:		
Depreciation and amortisation	32,315,521	26,092,841
Gain / (loss) on disposal of assets and liabilities	213,594	(237,008)
Fair value adjustments	(301,500)	(506,862)
Finance costs	1,325,663	452,572
(Profit) / loss on disposal of property plant and equipment	3,895	40,691
Debt impairment	14,221,255	2,045,880
Movements in retirement benefit assets and liabilities - current	(55,036)	(94,000)
Movements in retirement benefit assets and liabilities - non current	384,000	(205,000)
Movements in landfill provision	457,031	10,826,328
Changes in working capital:		
Inventories	(3,228)	(10,523)
Receivables from non - exchange transactions	33,545	285,999
Receivables from exchange transactions	(11,519,831)	(7,295,287)
Other receivables from exchange	780	(17,412)
Payables from exchange transactions	8,112,188	5,899,379
VAT receivable	(2,647,427)	4,270,345
Increase/(decrease) in Consumer deposits	28,880	31,996
	24,511,663	**43,766,043**

39. Commitments

Commitments in respect of capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	41,212,473	13,418,081
• Professional fees	2,438,683	-
	43,651,156	**13,418,081**
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	-	26,748,240
	-	**26,748,240**
Total capital commitments		
Already contracted for but not provided for	43,651,156	13,418,081
This expenditure will be financed for		
• Government grant	43,651,156	40,166,321

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.

Figures in Rand	2015	2014

40. Contingencies

The entity is being sued for some of the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain.

Contingent liabilities	2015	2014
Litigation against municipality for breach of contract - Boswa Bontle Trading	117,869	-
Litigation against the municipality for breach of contract - Palo Phanuel Modibedi	350,000	-
The municipaliy is being sued for road accident the claimant is Riaan Coetzee	3,800,000	-
Litigation against the municipality by Tokologo farmers for damages caused by veld fires.	3,000,000	2,390,000
Litigation against the municipality for breach of contract - Willem Cornelius van der Walt	293,298	293,298
Litigation against the municipality as a result of road accident - JW van Niekerk	-	850,000
Litigation against the municipality for breach of contract - Nashua Mobile (Pty) Ltd	265,000	-
	7,826,167	**3,533,298**

SAMWU has lodged a claim for unpaid leave days for contract workers who were later employed permanently.

Auction Facilities Boshof vs Tokologo for investigation of sale and facilitate transfer.

This matter relates to the problem of N.J. Balo of stand number 789 Sebaile Street, Malebogo.

Thiza Construction is under liquidation and the liquidators have requested all documents to recover any debt.

The matter relates J. A Neethling for contribution for monies for border fencing between two properties.

Notes to the Financial Statements

Figures in Rand	2015	2014

41. Related parties

Relationships
Relationships

Close family member of key management	Refer to related party transactions disclosed below together with the remuneration as disclosed in note 24 and 25.
Persons employed in other organs of state	Refer to related party transactions disclosed below.
Associate of close family member of key management	Refer to related party transactions disclosed below.
Post employment benefit plan for employees of entity and/or other related parties	No related parties transactions noted

Related party transactions

	2015	2014
Purchases from related parties to key management		
Mamaky's Catering and Trading CC	-	110,000
Karee Court Trading (Pty) Ltd	-	13,110
Thabiso & Dibuseng General Trading	6,500	-
Purchases from related parties to persons in service of the muncipality		
Thabiso & Dibuseng General Trading	13,000	-
Klaas Buys General Construction	221,696	-
Purchases from related parties employed in other state organs		
Kopano Ya Basadi Waste Management	193,000	-
Antioke Trading	15,600	-

The managing member of Mamaky Catering and Trading CC is Me.MM Nkwadipo who is a close family member of a key manager.

The Director of Karee Court Trading is Mr. H.S. Links who is a Member of Council.

The Owner of Thabiso & Dibuseng General Trading is a business associate of Mr.Z Maxilane a Ward Councillor.

Key management information

Class	Remuneration	Number
Section 57 managers	Refer to note 24	3
Mayor	Refer to note 25	1
Councillors	Refer to note 25	7
Municipal Manager	Refer to note 24	1

Figures in Rand	2015	2014

42. Restatement of compartive information

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

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

42.1 Prior period error - Understatement of year end trade creditors:

During the period under review it was noted that the year end trade creditors were 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 payables from exchange transactions	(398,720)

Figures in Rand	2015	2014

42. Restatement of compartive information (continued)

Statement of Financial Performance		
Increase in general expenditure		398,720

42.2 Prior period error - Understatement of Vat payable:

During the period under review it was noted that Vat receivable account was misstated due to various vat related errors. 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 opening accumulated surplus		1,486,803
Increase in vat payable		(1,486,803)

42.3 Prior period error - Overstatement of payroll control account:

During the period under review it was noted that the payroll control account 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		
Increase in opening accumulated surplus		(43,781)
Decrease in payables from exchange transactions		43,781

42.4 Prior period error - Recognition of direct deposits not yet claimed:

During the period under review income was recognised on direct deposist not yet claimed. 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		(1,172,619)
Decrease in payables from exchange transactions		1,172,619

42.5 Prior period error - Understatement of other assets:

During the period under review it was noted that other assets was misstated as a result of newly found items discovered during the year end count conducted at 30 June 2015. The comparative statements for 2012/13 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 or deficit		(184,234)
Increase in cost price of other assets		312,701
Increase in accumulated depreciation other assets		(141,352)
Statement of Financial Performance		
Decrease in general expenses		(11,201)
Increase in depreciation		24,087

42.6 Prior period error - Understatement of operating lease debtor:

During the period under review it was noted that the operating lease debtor was understated due to an incorrect straightline calculation. 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 or deficit		(16,649)
Increase in operating lease debtor		21,522
Statement of Financial Performance		
Decrease in operating lease expense		(4,873)

Notes to the Financial Statements

Figures in Rand	2015	2014

42. Restatement of compartive information (continued)

42.7 Prior period error - Understatement of infrastructure assets and capital wip:

During the period under review it was noted that infrastructure assets was misstated as a result of items capitilised in the correct financial period and retention creditors not accrued for on projects 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 opening accumulated surplus or deficit	(119,690)
Increase in accumulated depreciation infrastructure assets	(45,586)
Increase in capital wip	897,405
Increase in rentention creditors	(3,192,797)
Increase in cost price infrastructure assets	2,465,131
Statement of Financial Performance	
Increase in depreciation	39,815
Decrease in general expenses	(44,278)

42.8 Prior period error - Understatement of provison for land fill sites:

During the period under review it was noted that the provision for land fill sites 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 opening accumulated surplus or deficit	(64,623)
Increase in provision for land fill sites	(10,573,992)
Increase in cost price of community assets	10,638,615
Statement of Financial Performance	

42.9 Prior period error - Incorrect treatment of Traffic Fine Income:
During the period under review it was noted that traffic fine income was not treated in line with requirements of GRAP 23 and IGRAP 1 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 non-exchange transactions	276,800
Increase in provision for impairment receivables from non-exchange transactions	(276,800)
Statement of Financial Performance	
Increase in traffic fine income	(276,800)
Increase in debt impairment	276,800

42.10 Prior period error - Overstatement of Capital Work in Progress:

During the period under review it was noted that capital work in progress was overstated due to professional fees being erroneously capitilised instead of being expensed. 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 property, plant and equipment	(1,216,782)
Decrease in opening accumulated surplus or deficit	1,216,782

43. Risk management

Financial risk management

This note presents information about the entity's exposure to each of the financial risks below and the entity's objectives, policies and procedures for measuring and managing financial risks. Further quantitive disclosures are included in the Annual Financial Statements.

The has management overall responsibility for the establishment and oversight of the municipality risk management framework. The municipality audit committee oversees the monitoring of compliance with the municipality risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by the municipality internal audit function.

The municipal entity monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:

- credit risk;

- liquidity risk; and

- market risk (including interest rate risk).

The municipal entity seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, and in the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipal entity does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk is the risk that the municipal entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Tokologo local Municipality exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipality liquidity risk through ongoing review of commitments.

The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

All of the financial financial assets the municipality have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipality.

The table below analyses the entity'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.

2015	Less than 1 year	Between 1 and 2 years
Finance lease	467,596	460,129
Payables from exchange transactions	24,887,463	-
	25,355,059	**460,129**

2014	Less than 1 year	Between 1 and 2 years
Finance lease	435,632	889,421
Payables from exchange transactions	16,775,284	-
	17,210,916	**889,421**

43. Risk management (continued)

Credit risk

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

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.

Financial assets exposed to credit risk at year end are shown in the relevant note for cash and cash equivalents and trade receivables.

Financial instrument	2015	2014
Cash and cash equivalents	2,593,141	4,245,323
Consumer receivables from exchange transactions	4,174,641	6,876,065
Receivables from non-exchange transactions	2,533,520	1,444,483

These balances represent the maximum exposure to credit risk.

Market risk

Risk from biological assets

The municipality is exposed to financial risks arising from changes in the market price of game.The municipality does not anticipate that game prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in game prices. The municipality reviews its outlook for game pricesregularly in considering the need for active financial risk management. There is also the risk of diseases which at themoment is unmanageable.

43. Risk management (continued)

Market rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year to the municipality exposure to market risks or the manner in which itmanages and measures the risk.

Market risk consists of the following risks:

.
Interest Rate Risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipal entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipal entity's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipality's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime
interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the entity.

Interest charged on the inter company loans are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material affect on these loans.

Cash flow interest rate risk

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipality's financial instruments are affected by the whole sale price of electricity from ESKOM.

44. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 545,123,941 and that the municipality's total assets exceed its total liabilities by R 545,123,941.

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.

Notes to the Financial Statements

Figures in Rand	2015	2014

44. Going concern (continued)

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

Management have evaluated all material going concern risks. Presented below are the major areas evaluated:

The municipality's current liabilities exceed it's current assets by R 17 628 412 (R8 741 695 in 2014) which indicates a current asset ratio is below the required norm of between 1.5 - 2.

The municipality has noted an increase in its revenue collection percentage to 48% (32% in 2014).

Electricity distribution losses (technical and non-technical) has increased to 49% which is above the norm of between 0 - 15%.

The municipality incurred a net deficit for the year under review of R18 057 667 (Surplus in 2014 of R 2 871 414), the major contributors to this change is the decreases in government grants, coupled with the increases in depreciation, bulk purchases and general expenses.

The municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that themuniciplaity has implemented a system to enhance the revenue collection and cash flow by improving on the debt recoverability processes.

After careful consideration of the factors mentioned Management is of the opinion that the municipality will be a going concern in the forseeable future based on the forecasts, avaliable cash resources and approved government funding for the next 2 financial years.

45. Events after the reporting date

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

There are no adjusting events after reporting date to report on.

46. Unauthorised expenditure

Unauthorised expenditure	33,356,720	16,220,722

Addtional funds allocated to the municipality from DWAF resulted in additional work performed on capital projects. The budget for capital expenditure were not adjusted when the additional work on projects were planned.

All the matters noted above will be presented to Council during the 2014/2015 financial year end so that they could be speedily resolved and concluded. The amount for the year under review will be investigated to get the exact amount and this will be presented to council for further action.

47. Fruitless and wasteful expenditure

Opening balance	1,225,697	1,200,019
Fruitless and wasteful expenditure	1,382,118	470,029
Condoned or written off by Council	-	(444,351)
	2,607,815	**1,225,697**

Interest paid and penalties: The interest could not be avoided as the municipality had a cashflow problem at that stage, but will be tabled to council for further action.

Details of fruitless & wasteful expenditure - Current year

Notes to the Financial Statements

Figures in Rand		2015	2014

47. Fruitless and wasteful expenditure (continued)

Details	Disciplinary steps taken/criminal proceedings	
Interest on overdue account	The interest was incurred due to cash flow problems. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	1,177,550
Fines and Penalties	The fines and penalties was incurred due to cash flow problems. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	72,087
Other fruitless expenditure	The matter is under review. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	132,481
		1,382,118

Details of fruitless & wasteful expenditure - Previous year

Details	Disciplinary steps taken/criminal proceedings	
Interest on overdue account	The interest was incurred due to cash flow problems. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	344,300
Fines and Penalties	The fines and penalties was incurred due to cash flow problems. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	120,979
Other fruitless expenditure	The matter is under review. No official of the entity is liable and expense has been submitted to council for consideration of condonment.	4,750
		470,029

Analysis of expenditure awaiting condonation per age classification

	2015	2014
Current year	1,382,118	470,029
Prior years	1,225,697	755,668
	2,607,815	**1,225,697**

48. Irregular expenditure

	2015	2014
Opening balance	48,868,683	47,582,909
Add: Irregular Expenditure - current year	20,598,865	10,300,938
Less: Amounts written off	(15,884,096)	(5,154,096)
Less: Amounts erroneously included prior years	-	(3,861,068)
	53,583,452	**48,868,683**

Subsequent to year end on 09 July 2015 Council did appove irregular to be written off amounting R 4 687 397.16(2008/2009), R5 344 830.52(2009/2010) and R5 851 86.64(2010/2011).

Notes to the Financial Statements

Figures in Rand	2015	2014

48. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	20,598,865	10,305,938
Prior years	32,984,587	38,567,745
	53,583,452	**48,873,683**

Details of irregular expenditure – current year

Details	Disciplinary steps taken/criminal proceedings	
Procurement of goods and services by obtaining only one or two quotations	Matters to be investigated and submitted to council	1,289,474
No proof of advertisement on municipality's website	Matters to be investigated and submitted to council	1,546,042
Consultants appointed without following SCM procedures	Matters to be investigated and submitted to council	17,763,349
		20,598,865

Details of irregular expenditure - Previous year

Details	Disciplinary steps taken/criminal proceedings	
Procurement of goods and services by obtaining only one or two quotations	Matters to be investigated and submitted to council	2,361,406
No proof of advertisement on municipality's website	Matters to be investigated and submitted to council	5,147,409
Consultants appointed without following SCM procedures	Matters to be investigated and submitted to council	2,797,123
		10,305,938

A register and methodology for identifying, recording, investigating and subsequently tabling to Council will be prepared soon so that the matters can be captured and dealt with speedily and on a continual basis

49. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses

In the current year the energy losses were 48.89 % (2014 33%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2015	21,731,228	11,106,842	10,624,387	49

Notes to the Financial Statements

Figures in Rand	2015	2014

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

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2014	17,267,438	11,640,964	5,626,474	33

The electricity distribution loss comprises of technical and non-technical losses. For the 2014/15 financial year the distribution lossesamount to 48.89%. The annual electricity distribution loss are made up of technical and non-technical losses which are the differencebetween electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tamperingwith meters and connections which form part of illegal consumption, faulty meters, etc.

Technical losses:

Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

Contributions to organised local government

	2015	2014
Current year subscription / fee	475,000	450,000

Audit fees

	2015	2014
Opening balance	(355,836)	936,158
Amount paid - current year	3,580,619	1,634,336
Amount paid - previous years	(3,013,340)	(2,926,330)
	211,443	**(355,836)**

PAYE, SDL and UIF

	2015	2014
Amount paid - current year	3,958,613	3,019,888

Pension and Medical Aid Deductions

	2015	2014
Amount paid - current year	5,646,498	4,590,119

VAT

	2015	2014
VAT payable	861,814	3,509,241

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

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

Notes to the Financial Statements

Figures in Rand	2015	2014

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

Councillors' arrear consumer accounts

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

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
HS LINKS	400	728	1,128
J NYAMANE	591	13,030	13,621
JE DITIRA/MAKOMO	649	13,125	13,774
AF BARTLEMAN	273	-	273
	1,913	**26,883**	**28,796**

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
HS LINKS	207	5,164	5,371
J NYAMANE	336	15,383	15,719
JE DITIRA/MAKOMO	329	10,992	11,321
	872	**31,539**	**32,411**

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

Supply chain management regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved and/or condoned by the Accounting Officer and noted by the Board of Directors.

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.

For the period under review there were instances where goods and services were procured via a deviation from the normal Supply Chain Management Regulations.

The reasons for these deviations were documented and reported to the Accounting Officer, who considered them and subsequently approved the deviation from the normal Supply Chain Management Regulations.

Incident	**Number of deviations**	**Rand value**
Emergency	3	83,064
Sole provider	5	1,466,312
In any other exceptional case where it is impossible to follow the official procurement processes	21	612,389
	29	**2,161,765**

Notes to the Financial Statements

Figures in Rand	2015	2014

50. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The annual financial statements are prepared using the nature of expenses in the statement of financial performance.

Basis for material differences between budget and actual amounts

It is general practice to deem a 10% deviation on operational revenue and expenditure versus the final budget as material and for capital expenditure the percentage deviation is 10%.

Figures in Rand	2015	2014

50. Actual operating expenditure versus budgeted operating expenditure (continued)

Sale of game

Due to drought, less game was allocated for culling.

Service charges

Electricity is the municipality’s main source of revenue; the increase is due to more consumption of Electricity by consumers.

Rendering of services

The municipality had more indigent registration than the previous years thus resulted in less revenue received in the current year.

Rental of facilities and equipment

Locals utilized the municipality's services more than in the past and there were annual price increases.

Interest received from consumer debtors

Due to an increase in consumer debtors owing the municipality which resulted in more consumer debtors being charged interest.

Interest received - investments

The municipality invested for longer than initially anticipated.

Property rates

Property values increased after valuation which resulted in an increase.

Debt impairment

The is provided for in the statement of financial position and should not be populated in the statement of financial performance.

Depreciation and amortisation

Depreciation incudes infrastructure assets which are not included in the computation of the budget.

Finance costs

The increase is caused by interest charged by Eskom on the outstanding Debt.

Debt impairment

Impairment was based on the circumstances of debtor in the current year and the recoverability of debt was less than anticipated.

Repairs and maintenance

Maintenance on assets were done in the prior year which resulted in less assets needed to be repaired in the current year.

Bulk purchases

Due to financial constrains the municipality could not keep up with Eskom Payments.

Contracted services

Due to lack of internal capacity more external resource were required to ensure that all compliance issues are adhered to timeously.

Figures in Rand	2015	2014

50. Actual operating expenditure versus budgeted operating expenditure (continued)

Grants and subsidies paid

The municipality had more indigent registration than the previous year's thus resulted in an increase.

General expenses

Certain expenditure was not anticipated with the compilation of the budget.

Receivables from non - exchange transactions

The increase is due to camp rentals debtors not paying their debt timeously. Only a small percentage of revenue was received for the debt for the year under review.

Consumer debtors from exchange transactions

The decrease is due to collection of debt from consumer debtors being more management due to MBD a service provider being appoint to assist in the collection of debt.

Cash and cash equivalents

The decrease is due to the muncipality being under financial constraints which resulted in less money being invested yield a better return.

Biological assets that form part of an agricultural activity

The increase is to decrease in cullling during the current financial year.

Investment property

The difference between the budget and actual was to management intention to refurbish the investment property which would have resulted in the increase in value of the investment property.

Property, plant and equipment

The difference between the actual was due to management being under the impression that their would be infrastructure assets that would be capitalised under the period under review.

Figures in Rand	2015	2014

50. Actual operating expenditure versus budgeted operating expenditure (continued)

Investments

The decrease is due to Suidwes shares that were sold for the period under review.

Payables from exchange

Due to financial constrains the municipality could not keep up with Eskom Payments.

Vat payable

The municipality errorously did not budget for vat payable for the period under review.

Finance lease obiligation

The decrease is due to the short term portion that is being disclosed under current liabilities.

Employee benefit obligation

The difference is due to management being under the impression that the employee benefit obligation would increase due to vacancies that were filled in the period under review.

Provisions

The provision was errorously not budgeted for the period under review.

Long service awards

The long service awards was errorously not budgeted for the period under review.

51. VAT payable

VAT payable	861,814	3,509,241

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

TOKOLOGO MUNICIPALITY
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2015

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Gran Sub del wit
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Mar
Municipal Infrastructure Grant (MIG)	National	7,579,000	4,898,000	4,441,000	-	3,802,404	2,664,691	1,887,106	8,616,328	-
Reginal Bulk Infrastructure Grant		1,143,800	3,369,106	2,387,871	3,099,223	1,143,800	3,285,882	2,471,095	4,472,367	-
Financial Management Grant (FMG)	National	1,800,000	-	-	-	178,897	725,745	643,297	239,391	-
Department of Mineral and Energy Grant		-	180,000	1,820,000	-	-	-	809,394	1,117,490	-
Municipal Systems Improvement Grant	National	930,000	-	-	-	613,790	155,015	-	170,890	-
		11,452,800	8,447,106	8,648,871	3,099,223	5,738,891	6,831,333	5,810,892	14,616,466	-

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.