Chapter 7

Annual Financial Statements 2014/ 2015 Financial Year

Annual Financial Statements 2014/15 Financial Year

Nketoana Local Municipality
Annual financial statements
for the year ended 30 June 2015

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity	Local Municipality Demarcation number: FS193
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nketoana area.
Mayoral committee	M Molapisi (Mayor) P Nkomo (Speaker) M Malindi (Executive Member) M Mphaka (Executive Member) M Blignaut (Executive Member) M Moloedi (Executive Member)
Councillors	G Nhlapo P Mofokeng T Radebe M Nakedi M Mosia M Semela K Mokoena N Tshabalala P Sibeko S Du Preez S Henning RD Majoe
Grading of local authority	Medium capacity Grade 3 in terms of the Public Office Bearers Act
Accounting Officer	LI Mokgatlhe (Municipal Manager)
Chief Finance Officer (CFO)	TG Makgale (acting)
Registered office	Corner Church and Voortrekker St Reitz 9810
Business address	Corner Church and Voortrekker St Reitz 9810
Postal address	P.O. Box 26 Reitz 9810
Controlling entity	Nketoana Municipality
Bankers	ABSA (Primary bank)
Auditors	Auditor-General South Africa

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

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

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Annual Financial Statements for the year ended 30 June 2015

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Abbreviations

SALGBC	South African Local Government Bargaining Council
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
VAT	Value Added Tax
MSIG	Municipal Systems Improvement Grant
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MFMG	Municipal Finance Management Grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamated Bank of South Africa
SARS	South African Revenue Services
LG SETA	Local Government Sector Education Training Authority

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 7 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

L.I. Mokgatlhe (Municipal Manager)
Accounting Officer

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Audit Committee Report

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

Audit committee members and attendance

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

Name of member	Number of meetings attended
Mr BTA Matabane (Chairperson)	5
Mr K Motsoane	5
Ms C Mokoena	4

Audit committee responsibility

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

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

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits, except for issues raised by the committee in their report to Council.

Chairperson of the Audit Committee

Date: 27 NOVEMBER 2015

PRACTICE LOGO

Report of the Auditor General

To the Provincial Legislature of Nketoana Local Municipality

Report on the financial statements

Responsibility of the Accounting Officer for the annual financial statements

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] , and in the manner required by the Companies Act of South Africa [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor-General South Africa

30 November 2015

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

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

Net deficit of the municipality was R 40 412 333 (2014: deficit R 75 071 342).

2. Going concern

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer does not have any interest in contracts.

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

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

Name	Nationality
L.I. Mokgatlhe (Municipal Manager)	South African

7. Auditors

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand		Note(s)	2015	2014 Restated*
Assets				
Current Assets				
Inventories	30.20	4	586 686	776 544
Receivables from exchange transactions	31.20	5	10 932 977	3 164 735
Receivables from non-exchange transactions	33.20	6	14 994 355	12 881 657
Consumer debtors	31.20	7	32 762 615	30 211 174
Cash and cash equivalents	32.20	8	2 997 794	789 302
			62 274 427	**47 823 412**
Non-Current Assets				
Biological assets that form part of an agricultural activity	22.20	9	50 476	22 700
Investment property	21.20	10	8 116 947	8 263 614
Property, plant and equipment	20.20	11	573 716 176	590 782 004
Intangible assets	23.22	12	25 673	27 833
Other financial assets	25.26-28	13	4 305 805	4 582 445
Long-term deposit	27.27	14	2 018 500	2 018 500
			588 233 577	**605 697 096**
Total Assets			**650 508 004**	**653 520 508**
Liabilities				
Current Liabilities				
Other financial liabilities	41.27-28	15	1 398 503	906 482
Payables from exchange transactions	51.20	16	113 956 308	74 118 085
VAT payable	51.20	17	15 566 312	13 080 172
Consumer deposits	51.20	18	1 305 253	1 251 344
Employee benefit obligation	27.22	19	550 000	335 000
Unspent conditional grants and receipts	43.20	20	1 091 381	3 679 861
Cash and cash equivalents	32.20	8	1 198 016	1 670 608
			135 065 773	**95 041 552**
Non-Current Liabilities				
Other financial liabilities	41.27-28	15	8 569 848	10 410 778
Employee benefit obligation	27.22	19	10 619 000	11 102 000
Provisions	52.20	21	3 478 494	3 778 956
			22 667 342	**25 291 734**
Total Liabilities			**157 733 115**	**120 333 286**
Net Assets			**492 774 889**	**533 187 222**
Accumulated surplus	40.24		492 774 889	533 187 222

* See Note 2 & 48

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	108 888 301	98 158 417
Rental of facilities and equipment	23	356 580	433 839
Interest received (trading)	24	20 173 637	19 071 015
Other income	25	1 113 255	1 397 571
Interest received - investment	26	583 166	411 307
Total revenue from exchange transactions		**131 114 939**	**119 472 149**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	16 038 993	15 953 565
Transfer revenue			
Government grants & subsidies	28	140 545 813	128 777 666
Public contributions and donations	29	-	8 000
Fines, penalties and forfeits	30	205 404	157 645
Total revenue from non-exchange transactions		**156 790 210**	**144 896 876**
Total revenue		**287 905 149**	**264 369 025**
Expenditure			
Employee related costs	31	(74 122 616)	(68 647 855)
Remuneration of councillors	32	(6 676 993)	(5 379 215)
Depreciation and amortisation	33	(67 572 300)	(64 210 796)
Finance costs	34	(7 763 948)	(2 917 794)
Lease rentals on operating lease	35	(4 686 484)	(3 141 412)
Debt Impairment	36	(67 102 428)	(95 804 025)
Repairs and maintenance	37	(15 404 522)	(10 510 488)
Bulk purchases	38	(38 934 747)	(34 430 699)
Contracted services	39	(10 049 366)	(12 770 134)
General Expenses	40	(36 098 365)	(42 150 416)
Total expenditure		**(328 411 769)**	**(339 962 834)**
Operating deficit		**(40 506 620)**	**(75 593 809)**
Gain on disposal of assets and liabilities	41	36 425	654 736
Fair value adjustments	42	57 861	129 872
Loss on non-current assets held for sale or disposal groups		-	(654 736)
		94 286	**129 872**
Deficit for the year		**(40 412 334)**	**(75 463 937)**

* See Note 2 & 48

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**608 651 158**	**608 651 158**
Changes in net assets		
Deficit for the year	(75 463 936)	(75 463 936)
Total changes	(75 463 936)	(75 463 936)
Opening balance as previously reported	533 579 814	533 579 814
Adjustments		
Correction of errors	(392 592)	(392 592)
Restated* Balance at 01 July 2014 as restated*	**533 187 222**	**533 187 222**
Changes in net assets		
Deficit for the year	(40 412 333)	(40 412 333)
Total changes	(40 412 333)	(40 412 333)
Balance at 30 June 2015	**492 774 889**	**492 774 889**

* See Note 2 & 48

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Taxation		13 777 185	15 953 565
Sale of goods and services		55 371 470	44 968 465
Grants		136 050 040	126 967 948
Interest income		583 166	411 307
		205 781 861	188 301 285
Payments			
Employee costs		(81 067 609)	(72 650 070)
Suppliers		(62 905 816)	(44 883 044)
Finance costs		(7 763 948)	(2 917 794)
		(151 737 373)	(120 450 908)
Net cash flows from operating activities	44	**54 044 488**	**67 850 377**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(50 337 979)	(60 376 968)
Proceeds from sale of property, plant and equipment	11	36 425	654 736
Purchase of other intangible assets	12	(19 666)	-
Proceeds from sale of financial assets		306 724	(169 600)
Net cash flows from investing activities		**(50 014 496)**	**(59 891 832)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1 348 909)	(1 062 377)
Net cash flows from financing activities		**(1 348 909)**	**(1 062 377)**
Net increase/(decrease) in cash and cash equivalents		**2 681 083**	**6 896 168**
Cash and cash equivalents at the beginning of the year		(881 306)	(7 777 474)
Cash and cash equivalents at the end of the year	8	**1 799 777**	**(881 306)**

* See Note 2 & 48

Nketoana Local Municipality

Annual 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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	116 698 000	15 368 000	**132 066 000**	108 888 301	**(23 177 699)**	Note 1
Rental of facilities and equipment	403 000	(403 000)	**-**	356 580	**356 580**	Note 2
Interest received (trading)	18 762 000	1 838 000	**20 600 000**	20 173 637	**(426 363)**	Note 3
Other income - (rollup)	904 000	12 307 000	**13 211 000**	1 113 255	**(12 097 745)**	Note 4
Interest received - investment	425 000	75 000	**500 000**	583 166	**83 166**	Note 5
Total revenue from exchange transactions	**137 192 000**	**29 185 000**	**166 377 000**	**131 114 939**	**(35 262 061)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 320 000	13 237 000	**36 557 000**	16 038 993	**(20 518 007)**	Note 6
Transfer revenue						
Government grants & subsidies	82 649 000	-	**82 649 000**	140 545 813	**57 896 813**	Note 7
Fines, Penalties and Forfeits	180 000	(180 000)	**-**	205 404	**205 404**	Note 8
Total revenue from non-exchange transactions	**106 149 000**	**13 057 000**	**119 206 000**	**156 790 210**	**37 584 210**	
Total revenue	**243 341 000**	**42 242 000**	**285 583 000**	**287 905 149**	**2 322 149**	
Expenditure						
Personnel	(60 352 000)	1 252 000	**(59 100 000)**	(74 122 616)	**(15 022 616)**	Note 9
Remuneration of councillors	(6 243 000)	82 000	**(6 161 000)**	(6 676 993)	**(515 993)**	Note 10
Depreciation and amortisation	(70 995 000)	-	**(70 995 000)**	(67 572 300)	**3 422 700**	Note 11
Finance costs	(2 800 000)	-	**(2 800 000)**	(7 763 948)	**(4 963 948)**	Note 12
Lease rentals on operating lease	-	-	**-**	(4 686 484)	**(4 686 484)**	Note 13
Bad debts written off	(33 020 000)	(10 214 000)	**(43 234 000)**	(67 102 428)	**(23 868 428)**	Note 14
Repairs and maintenance	-	-	**-**	(15 404 522)	**(15 404 522)**	Note 15
Bulk purchases	(36 723 000)	(3 000 000)	**(39 723 000)**	(38 934 747)	**788 253**	Note 16
Contracted Services	(10 091 000)	-	**(10 091 000)**	(10 049 366)	**41 634**	Note 17
General Expenses	(60 610 000)	(30 336 000)	**(90 946 000)**	(36 098 365)	**54 847 635**	Note 18
Total expenditure	**(280 834 000)**	**(42 216 000)**	**(323 050 000)**	**(328 411 769)**	**(5 361 769)**	

Nketoana Local Municipality

Annual 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
Operating deficit	**(37 493 000)**	**26 000**	**(37 467 000)**	**(40 506 620)**	**(3 039 620)**	
Gain on disposal of assets and liabilities	-	-	-	36 425	**36 425**	
Fair value adjustments	-	-	-	57 861	**57 861**	
	-	-	-	**94 286**	**94 286**	
Deficit before taxation	**(37 493 000)**	**26 000**	**(37 467 000)**	**(40 412 334)**	**(2 945 334)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(37 493 000)**	**26 000**	**(37 467 000)**	**(40 412 334)**	**(2 945 334)**	

Reconciliation

Nketoana Local Municipality

Annual 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

Basis differences
Both the approved budget and the financial statements are prepared on the accrual basis and differences between the final budget and actual amounts are therefore not due to basis differences.

Timing differences
The budget period does not differ from the financial statements period and differences between the final budget and the actual amounts are therefore not due to timing differences.

Entity differences
The approved budget does not omits programmes or entities that are part of the municipality for financial statement purposes and differences between the final budget and actual amounts are therefore not due to entity differences.

Explanantions for differences between budget and actual

Note 1
The annual tariff increases and new township establishments in Ntha, Petsana and Mamafubedu, were not sufficiently budgeted for.

Note 2
Rental income was budgeted for under *other income*.

Note 3
The actual interest received is 2% lower than the budgeted amount and is seen as insignificant.

Note 4
Rental income and fines were budgeted for under *other income* but does not form part of other income's actual amount.

Note 5
The applicable interest rates and length of investments were not taken into account when budgeting interest received from investments.

Note 6
Property rates' budgeted amount does not include revenue forgone whereas the actual amount does include revenue forgone.

Note 7
The budgeted amount does not include capital grants such as MIG, RBIG and INEG, whilst the actual amount includes capital and operational grants.

Note 8
Fines were budgeted for under *other income*.

Note 9
The municipality did not budget for any expense relating to the vacant positions. The actual amount includes allowances paid to acting staff as well as overtime paid due to shortage of staff.

Note 10
The actual amount includes salaries and wages paid to Expanded Public Works Programme workers.

Note 11
Some municipal assets were fully depreciated in 2013/2014 and therefore no depreciation was charged in 2014/2015 on those assets.

Note 12

Nketoana Local Municipality

Annual 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

Interest on overdue payable accounts caused the significant difference between the budgeted and actual amounts.

Note 13
Lease rentals were budgeted for under *general expenses*.

Note 14
In 2014/2015 actual write-offs amounted to R50m whilst the increase in the provision for bad debts amounted to R16m. The movement in the Statement of Financial Performance was not significantly budgeted for.

Note 15
Repairs & maintenance were budgeted for under *general expenses*.

Note 16
The budgeted bulk purchases is 2% higher than the actual amount and is seen as insignificant.

Note 17
The budgeted contracted services is less than 1% higher than the actual amount and is seen as insignificant.

Note 18
Lease rentals and repairs & maintenance were budgeted for under general expenses but the actual amounts were not included under general expenses. Financial constraints further caused actual expenditure to be less than budgeted expenditure.

The accounting policies on pages 16 to 41 and the notes on pages 42 to 76 form an integral part of the annual financial statements.

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

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Biological assets that form part of an agricultural activity

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

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

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

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

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.

Where fair value cannot be measured reliably, biological assets are measured at cost.

1.4 Investment property

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

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

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

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

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

Accounting Policies

1.4 Investment property (continued)

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

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

Cost model

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

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

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

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

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.5 Property, plant and equipment

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

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

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

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

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

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

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

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Furniture and fixtures	7 - 10 years
Motor vehicles	5 - 7 years
Office equipment	3 - 5 years
Infrastructure	
• Roads and paving	20 years
• Electricity	20 - 30 years
Community	
• Buildings	30 years
• Recreational facilities	30 years
Other property, plant and equipment	
• Landfill sites	30 years
• Quarries	30 years
• Emergency	5 - 15 years
Bins and containers	5 years
Specialised vehicles	5 - 7 years
Water network	
• Watercraft	15 years

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

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

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

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

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

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

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

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Accounting Policies

1.6 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service 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 surplus or deficit when the asset is derecognised.

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Accounting Policies

1.7 Financial instruments

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

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

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

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

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

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

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

- 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.