PHUMELELA

LOCAL MUNICIPALITY

Phumelela Local Municipality
Unaudited Annual financial statements
for the year ended 30 June 2016

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community
Executive Committee	
Mayor	Cllr TJ Motaung
	Cllr MD Kobeni
	Cllr DA Wessels
Councillors 2015/16	Cllr TR Zwane (Speaker)
	Cllr SE Tshabalala
	Cllr JM Mofokeng
	Cllr TN Masiteng
	Cllr OA Mokoena
	Cllr OS Tshabalala
	Cllr JM Ngwenya Sithebe
	Cllr LM Msimanga
	Cllr AD Radebe
	Cllr TE Radebe
Councillors 2016/17	Cllr TJ Motaung
	Cllr TR Zwane
	Cllr DA Wessels
	Cllr KA Sibeko
	Cllr SE Tshabalala
	Cllr JM Mofokeng
	Cllr OA Mokoena
	Cllr MB Mhlambi
	Cllr TM Tshabalala
	Cllr VP Kibido
	Cllr MM Mashinini
	Cllr BV Khumalo
	Cllr MS Ntsele
	Cllr NJ Mokoena
	Cllr B Mthombeni
Grading of local authority	Low Capacity (Grade 2)
Accounting Officer	Mr BW Kannemeyer
Chief Finance Officer (CFO)	Mr SA Nyapholi
Registered office	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Postal address	Private Bag X5 Vrede

General Information

	9835
Bankers	ABSA Bank Limited
Auditors	Auditor's/Accountant's name Registered Auditors
Attorneys	Ntsoane Attorneys

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
DWA	Department of Water Affairs
GLCCM	General Landfill Closure Costing Model
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
LSA	Long Service Awards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MLCCM	Municipal Landfill Closure Costing Model
NDP	Neighbourhood Development Programme
NDPG	Neighbourhood Development Partnership Grant
PEMA	Post-employment Medical Aid subsidy liability
SA GAAP	South African Statements of Generally Accepted Accounting Practice

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 unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited 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 unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited 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 unaudited 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 unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The unaudited annual financial statements set out on page 8 to 107, which have been prepared on the going concern basis, were approved by the accounting officer on 7 October 2016 and were signed on its behalf by:

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Accounting officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

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

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

Net deficit of the municipality was R 27,705,383 (2015: deficit R 2,603,224).

2. Going concern

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts.

5. Accounting policies

The unaudited annual financial statements 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. The financial statements also include disclosures prescribed by the MFMA.

6. Accounting Officer

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

Name
Mr B.W. Kannemeyer

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2009. The accounting officer discuss the responsibilities of management in this respect, at council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Accounting Officer's Report

Audit and risk committee

Mrs G.A. Ntsala, is the chairperson of the audit committee. The committee met 4 times during the financial year to review matters necessary to fulfil its role.

The following members conclude the audit committee:
-Mrs S. Lebeko
-Mrs E.T. Femele
-Mrs K. Mojatau

8. Bankers

ABSA Bank - Primary

First National Bank

9. Auditors

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

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	8	863,643	2,224,976
Receivables from exchange transactions	9	11,225,901	9,604,317
Receivables from non-exchange transactions	10	1,881,997	875,636
Cash and cash equivalents	12	470,992	589,159
Total Current Assets		**14,442,533**	**13,294,088**
Non-Current Assets			
Investment property	3	17,110,064	17,535,101
Property, plant and equipment	4	636,011,124	628,449,623
Heritage assets	5	5,761	5,761
Other financial assets	6	484,822	487,086
Total Non-Current Assets		**653,611,771**	**646,477,571**
Total Assets		**668,054,304**	**659,771,659**
Liabilities			
Current Liabilities			
Other financial liabilities	15	1,045,033	949,845
Finance lease obligation	13	-	301,515
Payables from exchange transactions	17	127,937,689	101,100,372
VAT payable	18	3,206,148	2,242,002
Consumer deposits	19	240,269	241,721
Employee benefit obligation	7	729,402	491,172
Unspent conditional grants and receipts	14	1,752,431	-
Total Current Liabilities		**134,910,972**	**105,326,627**
Non-Current Liabilities			
Other financial liabilities	15	799,051	1,841,086
Employee benefit obligation	7	4,510,219	5,084,130
Provisions	16	57,492,279	49,472,650
Total Non-Current Liabilities		**62,801,549**	**56,397,866**
Total Liabilities		**197,712,521**	**161,724,493**
Net Assets		**470,341,783**	**498,047,166**
Accumulated surplus		470,341,783	498,047,166
Total Net Assets		**470,341,783**	**498,047,166**

* See Note 45

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Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	29,550,541	30,139,926
Rental of facilities and equipment	22	949,587	749,201
Other income	24	508,343	1,813,112
Interest received	25	9,900,076	9,731,434
Total revenue from exchange transactions		**40,908,547**	**42,433,673**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	11,897,376	11,023,437
Transfer revenue			
Government grants & subsidies	27	96,692,261	106,204,877
Public contributions and donations	28	2,066,385	2,296,664
Fines	20	146,350	153,120
Total revenue from non-exchange transactions		**110,802,372**	**119,678,098**
Total revenue	20	**151,710,919**	**162,111,771**
Expenditure			
Employee related costs	29	(52,132,279)	(47,448,757)
Remuneration of councillors	30	(4,891,195)	(4,473,309)
Depreciation	31	(17,291,815)	(17,181,984)
Impairment loss	32	(1,928,872)	(1,297,809)
Finance costs	33	(14,778,137)	(5,911,208)
Lease rentals on operating lease	39	(895,082)	(302,353)
Debt Impairment	34	(23,299,751)	(23,987,195)
Collection costs		(164,445)	(90,601)
Repairs and maintenance		(7,507,216)	(16,518,073)
Bulk purchases	35	(24,740,821)	(17,348,674)
Contracted services	36	(7,286,201)	(11,513,058)
General Expenses	37	(24,393,047)	(18,641,974)
Total expenditure		**(179,308,861)**	**(164,714,995)**
Operating deficit	39	**(27,597,942)**	**(2,603,224)**
Loss on disposal of assets and liabilities		(107,441)	-
Deficit for the year		**(27,705,383)**	**(2,603,224)**

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* See Note 45

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	395,786,950	395,786,950
Adjustments		
Prior year adjustments	104,863,440	104,863,440
Balance at 01 July 2014 as restated*	**500,650,390**	**500,650,390**
Changes in net assets		
Surplus for the year	(2,603,224)	(2,603,224)
Total changes	(2,603,224)	(2,603,224)
Opening balance as previously reported	487,979,779	487,979,779
Adjustments		
Prior year adjustments	10,067,387	10,067,387
Restated* Balance at 01 July 2015 as restated*	**498,047,166**	**498,047,166**
Changes in net assets		
Surplus for the year	(27,705,383)	(27,705,383)
Total changes	(27,705,383)	(27,705,383)
Balance at 30 June 2016	**470,341,783**	**470,341,783**

* See Note 45

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxation		11,897,376	11,023,437
Sale of goods and services		29,386,887	39,817,527
Grants		99,651,066	105,776,607
Interest income		9,900,076	9,731,434
		150,835,405	166,349,005
Payments			
Employee costs		(57,359,155)	(52,936,379)
Suppliers		(51,222,793)	(84,270,034)
Finance costs		(14,778,137)	(5,911,208)
		(123,360,085)	(143,117,621)
Net cash flows from operating activities	40	**27,475,320**	**23,231,384**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(26,372,718)	(25,865,396)
Proceeds from sale of financial assets		27,593	3,815
Net cash flows from investing activities		**(26,345,125)**	**(25,861,581)**
Cash flows from financing activities			
Repayment of other financial liabilities		(946,847)	(908,680)
Finance lease payments		(301,515)	(480,974)
Net cash flows from financing activities		**(1,248,362)**	**(1,389,654)**
Net increase/(decrease) in cash and cash equivalents		**(118,167)**	**(4,019,851)**
Cash and cash equivalents at the beginning of the year		589,159	4,609,010
Cash and cash equivalents at the end of the year	12	**470,992**	**589,159**

* See Note 45

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	46,706,713	(17,139,691)	**29,567,022**	29,550,541	**(16,481)**	"Some of the rental contracts came to an end and were not renewed.
Rental of facilities and equipment	1,914,731	2,342,907	**4,257,638**	949,587	**(3,308,051)**	
Other income - (rollup)	1,713,477	171,688	**1,885,165**	508,343	**(1,376,822)**	
Interest received - investment	11,159,264	226,128	**11,385,392**	9,900,076	**(1,485,316)**	This is due to credit control measures implemented by the municipality which resulted in less interest billed on outstanding debtors.
Total revenue from exchange transactions	**61,494,185**	**(14,398,968)**	**47,095,217**	**40,908,547**	**(6,186,670)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	22,544,587	(3,497,943)	**19,046,644**	11,897,376	**(7,149,268)**	This is due to the inclusion of recoveries from outstanding debtors in the current year revenue on the budget.
Transfer revenue						
Government grants & subsidies	64,267,000	600,000	**64,867,000**	96,692,261	**31,825,261**	This is due to the inclusion of both the operational and capital grants in the financial statements whereas this are separate on the budget

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Public contributions and donations	-	-	-	2,066,385	**2,066,385**	This is due to the contribution by NT towards the municipality's audit fees, which was not budgeted for.
Fines, Penalties and Forfeits	66,260	(26,260)	**40,000**	146,350	**106,350**	More fines were issued than management anticipated.
Total revenue from non-exchange transactions	**86,877,847**	**(2,924,203)**	**83,953,644**	**110,802,372**	**26,848,728**	
Total revenue	**148,372,032**	**(17,323,171)**	**131,048,861**	**151,710,919**	**20,662,058**	
Expenditure						
Personnel	(53,099,033)	(948,316)	**(54,047,349)**	(52,132,279)	**1,915,070**	Unfilling of vacant positions
Remuneration of councillors	(4,348,286)	(347,699)	**(4,695,985)**	(4,891,195)	**(195,210)**	The municipality was downgraded from grade 3 to grade 2,
Depreciation and amortisation	(3,876,003)	1,892,261	**(1,983,742)**	(17,291,815)	**(15,308,073)**	Not known at the time of the budget preperation.
Impairment loss/ Reversal of impairments	-	-	-	(1,928,872)	**(1,928,872)**	
Finance costs	(891,101)	(2,743,237)	**(3,634,338)**	(14,778,137)	**(11,143,799)**	Not known at the time of the budget preperation.
Lease rentals on operating lease	-	-	-	(895,082)	**(895,082)**	
Bad debts written off	(4,813,525)	2,225,369	**(2,588,156)**	(23,299,751)	**(20,711,595)**	Impairment is only performed at the end of the financial period
Collection costs	-	-	-	(164,445)	**(164,445)**	The municipality roped in the services of the Boerevereenigi ng to assist with collections on outstanding farmers' accounts

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Repairs and maintenance	(8,795,522)	(1,286,511)	**(10,082,033)**	(7,507,216)	**2,574,817**	This is due to the controls put in place by management to better utilise assets in order to minimise repair cost.
Bulk purchases	(18,800,712)	(4,720,568)	**(23,521,280)**	(24,740,821)	**(1,219,541)**	
Contracted Services	(3,500,000)	-	**(3,500,000)**	(7,286,201)	**(3,786,201)**	This is due to the variable portion of the contracted amounts which relied on what's needed at a particular time. Especially electricity - due to cable theft.
General Expenses	(49,209,286)	22,596,048	**(26,613,238)**	(24,393,047)	**2,220,191**	This is due to austerity measures introduced by the municipality which led to the curbing of expenditure on less important items.
Total expenditure	**(147,333,468)**	**16,667,347**	**(130,666,121)**	**(179,308,861)**	**(48,642,740)**	
Operating deficit	**1,038,564**	**(655,824)**	**382,740**	**(27,597,942)**	**(27,980,682)**	
Loss on disposal of assets and liabilities	-	-	-	(107,441)	**(107,441)**	
Deficit before taxation	**1,038,564**	**(655,824)**	**382,740**	**(27,705,383)**	**(28,088,123)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1,038,564**	**(655,824)**	**382,740**	**(27,705,383)**	**(28,088,123)**	

Reconciliation

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Unaudited Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	500,000	-	**500,000**	863,643	**363,643**	
Receivables from exchange transactions	-	-	-	906,075	**906,075**	
Receivables from non-exchange transactions	-	-	-	1,881,997	**1,881,997**	
Consumer debtors	16,581,761	(1,534,198)	**15,047,563**	-	**(15,047,563)**	
Cash and cash equivalents	(1,224,699)	1,534,198	**309,499**	470,992	**161,493**	
	15,857,062	-	15,857,062	4,122,707	(11,734,355)	
Non-Current Assets						
Investment property	-	-	-	17,110,064	**17,110,064**	This is due to the inclusion of the investment property amount under PPE on the budget.
Property, plant and equipment	602,517,311	-	**602,517,311**	636,011,124	**33,493,813**	This is due to adjustments made on the asset register that was disclaimed by Ag in prior year.
Heritage assets	-	-	-	5,761	**5,761**	
Other financial assets	-	-	-	484,822	**484,822**	This was erroneously excluded from the budget
	602,517,311	-	602,517,311	653,611,771	51,094,460	
Total Assets	618,374,373	-	618,374,373	657,734,478	39,360,105	
Liabilities						
Current Liabilities						
Other financial liabilities	916,747	-	**916,747**	1,045,033	**128,286**	
Payables from exchange transactions	-	-	-	127,937,686	**127,937,686**	
VAT payable	-	-	-	3,206,148	**3,206,148**	
Consumer deposits	821,903	-	**821,903**	240,269	**(581,634)**	
Employee benefit obligation	-	-	-	729,402	**729,402**	
Unspent conditional grants and receipts	-	-	-	1,752,431	**1,752,431**	
	1,738,650	-	1,738,650	134,910,969	133,172,[illegible]	
Non-Current Liabilities						
Other financial liabilities	3,558,575	-	3,558,575	[illegible]	(2,759,524)	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Employee benefit obligation	-	-	-	4,510,219	**4,510,219**	
Provisions	24,354,161	-	**24,354,161**	57,492,279	**33,138,118**	
	27,912,736	-	**27,912,736**	**62,801,549**	**34,888,813**	
Total Liabilities	**29,651,386**	-	**29,651,386**	**197,712,518**	**168,061,132**	
Net Assets	**588,722,987**	-	**588,722,987**	**460,021,960**	**(128,701,027)**	

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	588,722,987	-	**588,722,987**	460,021,960	**(128,701,027)**	

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Unaudited Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	18,035,670	(952,332)	**17,083,338**	-	**(17,083,338)**	
Sale of goods and services	40,320,945	(5,189,400)	**35,131,545**	27,689,281	**(7,442,264)**	
Grants	112,294,000	(14,400,000)	**97,894,000**	103,492,869	**5,598,869**	
Interest income	8,927,411	1,319,442	**10,246,853**	473,924	**(9,772,929)**	
Other receipts	-	-	-	12,693,298	**12,693,298**	
	179,578,026	(19,222,290)	160,355,736	144,349,372	(16,006,364)	
Payments						
Employee costs	(57,447,319)	(1,296,015)	**(58,743,334)**	(51,195,772)	**7,547,562**	
Suppliers	(58,600,988)	11,114,637	**(47,486,351)**	(69,224,436)	**(21,738,085)**	
Finance costs	(891,101)	(3,634,338)	**(4,525,439)**	(4,716,210)	**(190,771)**	
	(116,939,408)	6,184,284	(110,755,124)	(125,136,418)	(14,381,294)	
Net cash flows from operating activities	62,638,618	(13,038,006)	49,600,612	19,212,954	(30,387,658)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(48,292,000)	14,572,204	**(33,719,796)**	(31,218,041)	**2,501,755**	
Purchase of other intangible assets	-	-	-	(122,452)	**(122,452)**	
Proceeds from sale of financial assets	-	-	-	3,815	**3,815**	
Net cash flows from investing activities	(48,292,000)	14,572,204	(33,719,796)	(31,336,678)	2,383,118	
Cash flows from financing activities						
Repayment of other financial liabilities	(9,756,214)	-	**(9,756,214)**	(908,687)	**8,847,527**	
Finance lease payments	-	-	-	(480,974)	**(480,974)**	
Net cash flows from financing activities	(9,756,214)	-	(9,756,214)	(1,389,661)	8,366,553	
Net increase/(decrease) in cash and cash equivalents	4,590,404	1,534,198	6,124,602	(13,513,385)	(19,637,987)	
Cash and cash equivalents at the beginning of the year	-	-	-	4,458,957	4,458,957	
Cash and cash equivalents at the end of the year	4,590,404	1,534,198	6,124,602	(9,054,428)	(15,179,030)	

Reconciliation

AUDITOR GENERAL
P.O. BOX 315
10 -02- 2017
BLOEMFONTEIN, 9300
AUDITOR GENERAL

Accounting Policies

1. Presentation of Unaudited Annual Financial Statements

The unaudited 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 unaudited 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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 unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These unaudited 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 Significant judgements and sources of estimation uncertainty

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

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

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

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

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.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

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 assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying values.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 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 7.

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.

Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event

Accounting Policies

1.4 Investment property

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

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

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

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

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

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

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

Cost model

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

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

Item	Useful life
Property - land	Indefinite
Property - buildings	15-50 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.

Accounting Policies

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	Indefinite	Indefinite
Buildings	Straight line	15 to 50 years
Leased equipment	Straight line	5 to 10 years
Plant and machinery	Straight line	5 to 10 years
Furniture and fixtures	Straight line	5 to 10 years
Motor vehicles	Straight line	5 to 10 years
IT equipment	Straight line	3 to 10 years
Infrastructure	Straight line	
- Electricity	Straight line	15 to 50 years
- Roads	Straight line	10 to 80 years
- Water	Straight line	15 to 50 years
- Sewerage	Straight line	12 to 50 years

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

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

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

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

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

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

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

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

Accounting Policies

1.7 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Accounting Policies

1.7 Heritage assets (continued)

Impairment

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

Derecognition

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

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

1.8 Financial instruments

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

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 municipality 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 municipality's statement of financial position.

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 municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipalitity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

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

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

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

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

Accounting Policies

1.8 Financial Instruments (continued)

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

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

Accounting Policies

1.8 Financial instruments (continued)

Classification

Financial assets:
In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:
Financial asset at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.
Financial assets measured at fair value are financial assets that meet either of the following conditions:
(a) derivatives;
(b) combined instruments that are designated at fair value
(c) instruments held for trading.
(d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
(e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.
Financial assets measured 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.
The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:
Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are shortterm
highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of six months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

Financial liabilities:
A financial liability is a contractual obligation to deliver cash or another financial asset to another municipality.
There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:
(i) Financial liabilities measured ar fair value or
(ii) Financial liabilities measured at amortised cost
(iii) Financial liabilities measured at cost
The municipality has the following types of financial liabilities as reflected on the face of the statement of financial position or in the
notes thereto:

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value
Other financial assets	Financial asset measured at fair value
VAT Receivable	Financial asset measured at fair value
Investments	Financial asset measured at amortised cost

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

Accounting Policies

1.8 Financial Instruments (continued)

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
VAT Payable	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality 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 municipality 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.

Accounting Policies

1.8 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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 thc present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

1.8 Financial Instruments (continued)

Financial liabilities

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

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

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

Presentation

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

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

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

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

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

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

Accounting Policies

1.9 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

Accounting Policies

1.10 Inventories (continued)

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

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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.

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.

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

A cash-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.

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

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

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

Identification

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

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

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

Value in use

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

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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Accounting Policies

1.12 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.

1.13 Share capital / contributed capital

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

1.14 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

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

1.14 Employee benefits (continued)

- an municipality'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.

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality 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 municipality 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 municipality 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 municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

1.14 Employee benefits (continued)

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

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

The municipality recognises the net total of the following amounts in surplus or deficit.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

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

Accounting Policies

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

A constructive obligation to restructure arises only when 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.16 Commitments

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

Accounting Policies

1.16 Commitments (continued)

Disclosures are required in respect of unrecognised contractual commitments.

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:
- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancelable or only cancelable at significant cost contracts should relate to something other than the business of the municipality.

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

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

Accounting Policies

1.17 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.

Revenue, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

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.

Sale of goods

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

Rendering of services

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

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

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

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

Accounting Policies

1.17 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.

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

1.18 Revenue from non-exchange transactions

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

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

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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

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

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

Recognition

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

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

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

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

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

Taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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

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

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

Transfers / Goverment Grants

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

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

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

Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

Gifts and donations, including goods in-kind

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

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 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.

1.20 Investment income

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

1.21 Borrowing costs

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

Accounting Policies

1.22 Accounting by principals and agents

Identification

An agent is an municipality that has been directed by another sphere of goverment (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an municipality that directs another sphere of goverment (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one municipality (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another sphere of goverment (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.
The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another municipality or for its own benefit.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another sphere of goverment, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.23 Comparative figures

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

1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and

1.24 Unauthorised expenditure (continued)

- 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.

1.25 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.

1.26 Irregular expenditure

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

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

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

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

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

Accounting Policies

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 01/07/2015 to 30/06/2016.

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

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

The Statement of comparative and actual information has been included in the unaudited annual financial statements as the recommended disclosure when the unaudited annual 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.

1.29 Events after reporting date

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

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

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

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

1.30 Value Added Tax

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

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

Accounting Policies

1.31 Grants-in aid (Expense)

The municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the municipality does not

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;

- expect to be repaid in future; or

- expect a financial return, as would be expected from an investment.

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	
• GRAP 107: Mergers	01 April 2015	
• IGRAP 11: Consolidation – Special purpose entities	01 April 2015	
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015	
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2015	
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2015	
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2015	

2.2 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 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2017	The adoption of this amendment is not likely to have a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 20: Related parties	01 April 2016	The adoption of this amendment is not likely to have a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 16 (as revised 2012): Investment Property	01 April 2016	
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2016	
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment will not be material.
• GRAP108: Statutory Receivables	01 April 2016	The impact of the amendment will not be material.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment will not be material.

Notes to the Unaudited Annual Financial Statements

2. New standards and Interpretations (continued)

• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	The adoption of this amendment is not likely to have a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements

3. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	36,411,510	(19,301,446)	17,110,064	36,411,510	(18,876,409)	17,535,101
Total	**36,411,510**	**(19,301,446)**	**17,110,064**	**36,411,510**	**(18,876,409)**	**17,535,101**

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	17,535,101	(425,037)	17,110,064
	17,535,101	**(425,037)**	**17,110,064**

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	17,961,416	(426,315)	17,535,101
	17,961,416	**(426,315)**	**17,535,101**

Pledged as security

None of the investment property has been pledged as security.

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	177,735,731	-	177,735,731	177,735,731	-	177,735,731
Buildings	23,756,056	(12,958,216)	10,797,840	13,931,333	(12,450,679)	1,480,654
Plant and machinery	5,792,774	(3,113,166)	2,679,608	11,643,100	(7,141,389)	4,501,711
Motor vehicles	3,559,105	(2,386,648)	1,172,457	5,545,775	(3,554,746)	1,991,029
Office equipment	2,074,992	(1,119,268)	955,724	2,708,759	(1,462,056)	1,246,703
IT equipment	2,301,776	(969,043)	1,332,733	2,412,823	(905,217)	1,507,606
Roads network	236,023,956	(79,433,214)	156,590,742	236,023,956	(72,799,443)	163,224,513
Electricity network	10,922,940	(3,206,250)	7,716,690	10,922,940	(2,742,808)	8,180,132
Work In Progress	47,874,008	-	47,874,008	50,904,434	-	50,904,434
Leased Equipment	1,868,168	(1,587,943)	280,225	1,868,168	(1,401,126)	467,042
Wastewater network	113,376,419	(44,932,738)	68,443,681	104,018,821	(42,664,124)	61,354,697
Water network	230,862,970	(70,431,285)	160,431,685	220,841,150	(64,985,779)	155,855,371
Total	**856,148,895**	**(220,137,771)**	**636,011,124**	**838,556,990**	**(210,107,367)**	**628,449,623**

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	177,735,731	-	-	-	-	-	177,735,731
Buildings	1,480,654	-	-	9,824,723	(507,537)	-	10,797,840
Plant and machinery	4,501,711	29,850	(605)	-	(578,673)	(1,272,675)	2,679,608
Motor vehicles	1,991,029	-	(71,788)	-	(357,583)	(389,201)	1,172,457
Office equipment	1,246,703	58,662	-	-	(201,025)	(148,616)	955,724
IT equipment	1,507,606	110,491	(9,718)	-	(223,809)	(51,837)	1,332,733
Roads network	163,224,513	-	-	-	(6,633,771)	-	156,590,742
Electricity network	8,180,132	-	-	-	(463,442)	-	7,716,690
Work In Progress	50,904,434	25,968,816	-	(28,999,242)	-	-	47,874,008
Leased Equipment	467,042	-	-	-	(186,817)	-	280,225
Wastewater network	61,354,697	-	-	9,357,598	(2,268,614)	-	68,443,681
Water network	155,855,371	204,899	-	9,816,921	(5,445,506)	-	160,431,685
	628,449,623	**26,372,718**	**(82,111)**	**-**	**(16,866,777)**	**(1,862,329)**	**636,011,124**

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	177,735,731	-	-	-	-	177,735,731
Buildings	1,818,613	-	-	(337,959)	-	1,480,654
Plant and machinery	5,942,356	193,756	-	(1,159,357)	(475,044)	4,501,711
Motor vehicles	2,868,722	-	-	(554,577)	(323,116)	1,991,029
Office equipment	1,519,562	109,539	-	(265,915)	(116,483)	1,246,703
IT equipment	1,534,887	492,610	-	(216,503)	(303,388)	1,507,606
Roads network	159,410,267	-	10,311,843	(6,497,597)	-	163,224,513
Electricity network	8,643,574	-	-	(463,442)	-	8,180,132
Work In Progress	58,126,577	25,069,491	(32,291,634)	-	-	50,904,434
Leased Equipment	653,859	-	-	(186,817)	-	467,042
Wastewater network	63,485,896	-	-	(2,131,199)	-	61,354,697
Water network	138,817,884	-	21,979,791	(4,942,304)	-	155,855,371
	620,557,928	**25,865,396**	**-**	**(16,755,670)**	**(1,218,031)**	**628,449,623**

Clarity on land and buildings.

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

4. Property, plant and equipment (continued)

Depreciation rates

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

Item	Depreciation method	Average useful life
Land	Indefinite	Indefinite
Buildings	Straight line	15 to 50 years
Leaseed equipment	Straight line	5 to 10 years
Plant and machinery	Straight line	5 to 10 years
Furniture and fixtures	Straight line	5 to 10 years
Motor vehicles	Straight line	5 to 10 years
IT equipment	Straight line	3 to 10 years
Infrastructure	Straight line	
- Electricity	Straight line	15 to 50 years
- Roads	Straight line	10 to 80 years
- Water	Straight line	15 to 50 years
- Sewerage	Straight line	12 to 50 years

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	50,904,434	50,904,434
Additions/capital expenditure	25,968,816	25,968,816
Transferred to completed items	(28,999,242)	(28,999,242)
	47,874,008	**47,874,008**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	58,126,577	58,126,577
Additions/capital expenditure	25,069,491	25,069,491
Transferred to completed items	(32,291,634)	(32,291,634)
	50,904,434	**50,904,434**

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 Unaudited Annual Financial Statements

Figures in Rand	2016	2015

5. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	5,761	-	5,761	5,761	-	5,761
Total	**5,761**	**-**	**5,761**	**5,761**	**-**	**5,761**

Reconciliation of heritage assets 2016

	Opening balance	**Total**
Art Collections, antiquities and exhibits	5,761	5,761
	5,761	5,761

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Art Collections, antiquities and exhibits	5,761	5,761
	5,761	5,761

Pledged as security

None of the Heritage assets have been pledged as security.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

6. Other financial assets

At amortised cost		
VKB Shares	484,822	487,086
	484,822	**487,086**

Non-current assets		
At amortised cost	484,822	487,086
	484,822	**487,086**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations

Defined contribution plan

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

The last actuarial valuation was dated 30 June 2016

Post retirement medical aid plan

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations (continued)

Components of Health Care Liabilities

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer, for example, should the law governing medical schemes be changed in the future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

Long Service Award Liability

7. Employee benefit obligations (continued)

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	2.0%	5 / 250 x annual salary
10	4.0%	10 / 250 x annual salary
15	8.0%	20 / 250 x annual salary
20, 25, 30, 35, 40, 45	12.0%	30 / 250 x annual salary

Note:

- In the month that each "Completed Service" milestone is reached, the employee is granted a LSA.
- Working days awarded are valued at 1/250th of annual salary per day.

Financial Assumptions

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.49% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.49% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 1.73%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

The liability-weighted average term of the total liability is 6.94 years.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.
The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.15% was obtained from the differential between market yields on index-linked bonds (1.73%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.49%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.49%-0.50%)/(1+1.73%))-1.

Thus, a general salary inflation rate of 7.15% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.25%.

It has been assumed that the next salary increase will take place on 1 July 2017.

Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 7.15% per annum for all employees.

Pre-retirement Mortality:
SA85-90 ultimate table, adjusted down for female lives.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations (continued)

Average Retirement Age:
The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement

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

	2016	2015
Carrying value		
Present value of the defined benefit obligation- Post Employment Medical benefit plan.	(2,156,859)	(2,222,302)
Present value of the defined benefit obligation- Long Service Awards	(3,082,762)	(3,353,000)
	(5,239,621)	**(5,575,302)**
Non-current liabilities	(4,510,219)	(5,084,130)
Current liabilities	(729,402)	(491,172)
	(5,239,621)	**(5,575,302)**

The present value of plan assets includes:

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

	2016	2015
Opening balance	(5,575,302)	(6,359,615)
Actuarial (gains) losses	473,916	959,977
Net expense recognised in the statement of financial performance	(138,235)	(175,664)
	(5,239,621)	**(5,575,302)**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	(449,000)	(397,000)
Interest cost	(481,407)	(448,440)
Actual benefits vested	792,172	669,776
	(138,235)	**(175,664)**

Calculation of actuarial gains and losses

	2016	2015
Actuarial (gains) / losses - Long Service Awards	(498,238)	(1,050,000)
Actuarial (gains) / losses - Post Employment Benefit Plan	24,322	90,023
	(473,916)	**(959,977)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	8.59 %	8.28 %
Health care cost inflation rate	7.79 %	7.51 %
Net discount rate - health care cost inflation	0.74 %	0.72 %
Net Effective Discount Rate	2.96 %	2.87 %

Sensitivity Analysis on the Accrued Liability:

ASSUMPTION	CHANGE	TOTAL	% CHANGE
Central Assumptions		2.157	
Health care inflation	+1%	2.224	+3%
	-1%	2.090	-3%
Discount Rate	+1%	2.038	-6%
	-1%	2.289	+6%
Post-retirement mortality	-1 yr	2.273	+5%

Note:
The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 3% higher than that shown.

.PEMA Liability Reconciliation:

Opening Accrued Liability	2,222,302	2,205,615
-Current-service Cost	-	-
-Interest Cost	173,407	171,440
-Contributions (benefits paid)	(263,172)	(244,776)
Total Annual Expense	**(89,765)**	**(73,336)**
-Actuarial Loss / (Gain)	24,322	90,023
Closing Accrued Liability	**2,156,859**	**2,222,302**

LSA Liability Reconciliation:

Opening Accrued Liability	3,353,000	3,334,000
-Current-service Cost	449,000	397,000
-Interest Cost	308,000	277,000
-Contributions (benefits paid)	(529,000)	(425,000)
Total Annual Expense	**228,000**	**249,000**
-Actuarial Loss / (Gain)	(498,238)	(230,000)
Closing Accrued Liability	**3,082,762**	**3,353,000**

8. Inventories

	2016	2015
Consumable stores	818,275	2,172,163
Water	45,368	52,813
	863,643	**2,224,976**
Inventories are carried at cost	863,643	2,224,976

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

9. Receivables from exchange transactions

Trade debtors	906,075	1,084,419
Consumer debtors - Electricity	776,587	975,656
Consumer debtors - Water	3,669,606	2,349,361
Consumer debtors - Sewerage	3,362,076	2,282,028
Consumer debtors - Refuse	2,159,939	1,469,850
Consumer debtors - Sale of Stands	-	169
Consumer debtors - Housing Rental	351,618	1,455,883
Consumer debtors - Other	-	(13,049)
	11,225,901	**9,604,317**

Please refer to note 11 for detailed disclosure of the ageing and nett consumer disclosure.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)		
Baa2	11,225,901	9,604,317
	11,225,901	**9,604,317**

Fair value of trade and other receivables

Trade and other receivables	11,225,901	9,604,317

Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R - (2015: R -) were impaired and provided for.

The amount of the provision was R (132,113,284) as of 30 June 2016 (2015: R 412,561).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(246,383)	(412,561)
Unused amounts reversed	-	166,178
	(246,383)	**(246,383)**

10. Receivables from non-exchange transactions

Fines	7,288	8,532
Consumer debtors - Rates	1,874,709	867,104
	1,881,997	**875,636**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

10. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions

Counterparties with external credit rating (Moody's)		
Baa2	1,881,997	875,636
	1,881,997	**875,636**

Please refer to note 11 for detailed disclosure of the ageing and nett consumer disclosure.

Fair value of receivables from non-exchange transactions

Receivables from non-exchange transactions	1,881,997	875,636

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions were impaired and provided for.

The amount of the provision was R 66,545 as of 30 June 2016 (2015: R 79,778).

Details of the impairment:

Traffic Fines Impairment	66,545	79,778

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	79,778	-
Provision for impairment	66,545	79,778
	146,323	**79,778**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

11. Consumer debtors

Gross balances		
Rates	20,484,842	17,977,035
Electricity	4,371,072	3,879,990
Water	41,541,400	33,880,570
Sewerage	45,856,984	38,088,079
Refuse	47,088,009	39,848,497
Sale of stands	117,232	117,401
Housing rental	2,508,705	2,883,251
Other	448,675	233,334
	162,416,919	**136,908,157**

Less: Allowance for impairment		
Rates	(19,298,756)	(17,181,690)
Electricity	(3,218,722)	(2,904,334)
Water	(38,325,520)	(31,531,209)
Sewerage	(42,727,194)	(35,806,051)
Refuse	(45,282,385)	(38,378,647)
Sale of stands	(115,856)	(117,232)
Housing rental	(2,420,812)	(1,427,368)
Other	(402,225)	(246,383)
	(151,791,470)	**(127,592,914)**

Included in above is receivables from exchange transactions (Refer note 9)		
Electricity	776,587	975,656
Water	3,669,606	2,349,361
Sewerage	3,362,076	2,282,028
Refuse	2,159,939	1,469,850
Sale of stands		169
Other	-	(13,049)
Housing rental	351,618	1,455,883
	10,319,826	**8,519,898**

Included in above is receivables from non-exchange transactions (taxes and transfers) (Refer note 10)		
Rates	1,874,709	867,104
	1,874,709	**867,104**

Net balance	**12,194,535**	**9,387,002**

Rates		
Current (0 -30 days)	(186,841)	669,877
31 - 60 days	402,665	277,344
61 - 90 days	249,244	213,253
91 - 120 days	17,023,441	224,544
121 - 365+ days	2,996,333	16,663,776
Less: Impairment	(18,610,133)	(17,181,690)
	1,874,709	**867,104**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

11. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	(19,543)	294,406
31 - 60 days	365,729	83,503
61 - 90 days	80,181	57,129
91 - 120 days	3,168,598	44,794
121 - 365+ days	776,107	3,438,845
Less: Impairment	(3,594,485)	(2,943,021)
	776,587	**975,656**
Water		
Current (0 -30 days)	15,799	725,479
31 - 60 days	966,589	549,764
61 - 90 days	542,753	544,188
91 - 120 days	32,105,974	538,787
121 - 365+ days	7,910,285	33,874,009
Less: Impairment	(37,871,794)	(33,882,866)
	3,669,606	**2,349,361**
Sewerage		
Current (0 -30 days)	79,060	714,616
31 - 60 days	604,124	608,560
61 - 90 days	490,506	585,728
91 - 120 days	35,758,212	578,997
121 - 365+ days	8,925,082	35,955,222
Less: Impairment	(42,494,908)	(36,161,095)
	3,362,076	**2,282,028**
Refuse		
Current (0 -30 days)	33,054	711,631
31 - 60 days	560,427	602,835
61 - 90 days	458,643	587,694
91 - 120 days	36,423,176	580,472
121 - 365+ days	9,612,709	37,686,354
Less: Impairment	(44,928,070)	(38,699,136)
	2,159,939	**1,469,850**
Sale of stands		
121 - 365+ days	-	117,401
Less: Impairment	-	(117,232)
	-	**169**
Housing rental		
Current (0 -30 days)	1,175	21,168
31 - 60 days	20,969	18,748
61 - 90 days	15,983	372,424
91 - 120 days	2,334,922	15,489
121 - 365+ days	135,656	2,486,277
Less: Impairment	(2,157,087)	(1,458,223)
	351,618	**1,455,883**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

11. Consumer debtors (continued)

Other (specify)		
Current (0 -30 days)	(1,175)	18,389
31 - 60 days	20,969	9,920
61 - 90 days	15,983	10,805
91 - 120 days	915,408	8,341
121 - 365 days		207,843
Less: Impairment	(951,185)	(268,347)
	-	**13,049**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(127,521,155)	(103,558,129)
Contributions to allowance	(23,202,262)	(23,987,195)
Debt impairment written off against allowance	-	24,169
	(150,723,417)	**(127,521,155)**

Consumer debtors pledged as security

None of the consumer debtors were pledged as security.

Fair value of consumer debtors

Consumer debtors	12,194,535	9,387,002
	12,194,535	**9,387,002**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38,800	64,129
Bank balances	432,192	525,030
	470,992	**589,159**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
Baa2	432,192	525,030
	432,192	**525,030**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
ABSA Bank - Current Account	399,373	348,459	1,635,391	399,373	348,459	1,635,391
ABSA - Grants Call Account	4,877	45,244	2,844,307	4,877	45,244	2,844,307
ABSA Bank - Call Account	4,354	9,453	9,008	4,354	9,453	9,008
First National Bank - 7 Day	4,481	4,480	4,481	4,481	4,480	4,481
First National Bank - Interest Plus	19,107	117,394	51,694	19,107	117,394	51,694
Total	432,192	525,030	4,544,881	432,192	525,030	4,544,881

13. Finance lease obligation

Minimum lease payments due		
- within one year	-	301,515

Present value of minimum lease payments due		
- within one year	-	301,515
	-	**301,515**

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

The average lease term was 5 years and the average effective borrowing rate was 9% (2016: 9.54%).

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

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Integrated National Electrification Grant	1,752,431	-
	1,752,431	-

Movement during the year

Balance at the beginning of the year	-	3,243,589
Additions during the year	95,887,368	103,492,869
Income recognition during the year	(94,134,937)	(105,904,442)
Amount reverted to Treasury	-	(832,016)
	1,752,431	-

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

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015
15. Other financial liabilities		
At amortised cost		
DBSA Loan - 11193 20 year loan, interest rate 17%, redemption date 30 September 2019	646,698	772,927
DBSA Loan - 10349 20 year loan, interest rate 12%, redemption date 31 March 2017	64,149	121,214
DBSA Loan 12325 30 year loan, interest rate 12.6%, redemption date 31 December 2015	-	15,666
DBSA Loan 12324 30 year loan, interest rate 13.45%, redemption date 31 December 2015	-	8,586
ABSA term loan 5 year loan, interest rate 10.60%, final payment 31 October 2017	1,133,237	1,872,538
	1,844,084	**2,790,931**
Non-current liabilities		
At amortised cost	799,051	1,841,086
	799,051	**1,841,086**
Current liabilities		
At amortised cost	1,045,033	949,845
	1,045,033	**949,845**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	49,472,650	8,019,629	57,492,279
	49,472,650	**8,019,629**	**57,492,279**

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	47,503,588	1,969,062	49,472,650
	47,503,588	**1,969,062**	**49,472,650**

Comparison with the previous provision
In the previous AFS a landfill closure provision was disclosed for this landfill. However, as the methodology used for last year's calculations was completely different from the methodology used in the GLCCM, no meaningful comparison is possible.

Restructuring provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

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

Environmental rehabilitation provision

The municipality has a present obligation to ensure rehabilitation of the land fill sites used after the economic life of the landfill site has been fully utilised.

Introduction

It is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills, except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered legally closed. Closure will involve, inter alia, the application of final cover, top soiling, vegetating, drainage, maintenance, and leachate management."

Assumption and estimates

Unit Costs
Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

CPI
The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 6.2064%.

16. Provisions (continued)

Discount Rate
GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans,government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used. The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

• For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.

• For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.

• For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Comparison with the previous provision
In the previous AFS a landfill closure provision was disclosed for this landfill. However, as the methodology used for last year's calculations was completely different from the methodology used in the GLCCM, no meaningful comparison is possible.

Landfill closure and rehabilitation.

Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been compiled without site visits with no detailed inspections or investigations. Basic information on the size and classification of each site was supplied.

Calculation of closure costs.

Key financial assumptions used:

Assumption	2015-2016
CPI	6.2064%
Discount rate	7.9564%
Net effective discount rate	1.75%

Cost elements considered in the calculation of closure costs:

1. Planning for closure
1.1 Permit application for operation to closure
1.2 Basic assessment for closure
1.3 Finalise end-use plan
1.4 Closure design

Figures in Rand	2016	2015

16. Provisions (continued)

2. Rehabilitation and closure
2.1 Clearing, shaping and compacting
2.2 Capping
2.3 Top-soiling and vegetating
2.4 Storm water control system
2.5 Leachate seepage control system
2.6 Gas control system
2.7 Fencing

3. Post-closure monitoring and maintenance
3.1 Water monitoring
3.2 Gas monitoring
3.3 Rehabilitation monitoring
3.4 Maintenance of cover, subsidence and drainage
3.5 Fire control and vegetation maintenance
3.6 On-going leachate management
3.7 On-going gas management

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

Vrede - The current expected remaining life of the landfill is estimated at 2 years. This is based on a management estimate. the current expected remaining life of the landfill is not one year less than last year because the municipality decided to operate for another 2 years, the municipality still uses it as the licenced site is to be established when the funds are available. The extended closure over the closure date has been taken into account in the provision. The municipality has not yet decided on on effective closure date of the Vrede landfill site.

Memel - The current expected remaining life of the landfill is estimated at 2 years. This is based on a management estimate, the current expected remaining life of the landfill is not one year less than last year because the municipality decided to operate for another 2 years, the municipality is in the process of licencing a landfill site in Memel. The extended closure over the closure date has been taken into account in the provision. The municipality has not yet decided on on effective closure date of the Memel landfill site.

Warden - The current expected remaining life of the landfill is estimated at 2 years. This is based on a management estimate, the current expected remaining life of the landfill is not one year less than last year because the municipality decided to operate for another 2 years, the municipality will continue to use it as the licenced site is to be established when the funds are available. The extended closure over the closure date has been taken into account in the provision. The municipality has not yet decided on on effective closure date of the Warden landfill site.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

17. Payables from exchange transactions

13th cheque accrual	1,490,741	1,487,298
Accrued salary expense	30,287	64,532
Accrued leave pay	3,649,714	3,555,976
Deposits received	59,950	57,456
Debtors in credit	1,511,567	1,177,501
Retentions	4,127,005	4,072,323
Trade payables	109,605,267	83,310,283
Unallocated receipts and deposits	7,463,158	7,375,003
	127,937,689	**101,100,372**

Fair value of trade and other payables

Trade payables	127,937,689	101,100,372
	127,937,689	**101,100,372**

18. VAT payable

Tax payables	3,206,148	2,242,002
	3,206,148	**2,242,002**

19. Consumer deposits

Rates	240,269	241,721
	240,269	**241,721**

20. Revenue

Service charges	29,550,541	30,139,926
Rental of facilities	949,587	749,201
Other income	508,343	1,813,112
Interest received	9,900,076	9,731,434
Property rates	11,897,376	11,023,437
Government grants & subsidies	96,692,261	106,204,877
Public contributions and donations	2,066,385	2,296,664
Fines	146,350	153,120
	151,710,919	**162,111,771**

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

Service charges	29,550,541	30,139,926
Rental of facilities and equipment	949,587	749,201
Other income	508,343	1,813,112
Interest received	9,900,076	9,731,434
	40,908,547	**42,433,673**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

20. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11,897,376	11,023,437
Transfer revenue		
Government grants & subsidies	96,692,261	106,204,877
Public contributions and donations	2,066,385	2,296,664
Fines	146,350	153,120
	110,802,372	**119,678,098**

Basis on which fair value of inflowing resources was measured

Transfers

Fines

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

21. Service charges

Sale of electricity	7,808,842	7,587,444
Sale of water	7,948,074	7,638,199
Sewerage and sanitation charges	7,098,785	7,486,102
Refuse removal	6,694,840	7,428,181
	29,550,541	**30,139,926**

22. Rental of facilities and equipment

Premises		
Own Premises	949,587	749,201
	949,587	**749,201**

23. Other revenue

Other income	508,343	1,813,112
	508,343	**1,813,112**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

24. Other Income

Building Fees	35,514	31,121
Cemetery Fees	172,410	172,582
Collecting Fees	73,685	58,198
Connection Fees	45,097	159,039
Sale of stands	47,614	110,842
Tender deposits	65,300	67,400
Sundry income	43,721	1,197,180
Clearance certificate	25,002	16,750
	508,343	**1,813,112**

25. Investment revenue

Interest revenue

Bank	298,945	473,925
Interest charged on trade and other receivables	9,601,131	9,257,509
	9,900,076	**9,731,434**

26. Property rates

Rates received

Property rates	11,897,376	11,023,437
	11,897,376	**11,023,437**

Valuations

Residential	1,478,750,451	1,213,457,400
Commercial	151,374,986	112,706,000
State	84,629,113	69,354,000
Municipal	6,138,424	6,524,000
Small holdings and farms	5,924,829,077	6,166,982,913
Institutional and Other	113,712,249	173,249,671
	7,759,434,300	**7,742,273,984**

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

A general rate is applied to property valuations to determine assessment rates. Rebates of R45,000 is granted to residential and state property owners.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

27. Government grants and subsidies

Operating grants		
Equitable share	60,462,000	57,492,000
Financial Management Grant	1,875,000	1,800,000
Municipal Systems Improvement Grant	930,000	934,000
Expanded Public Works Programme Grant	1,000,000	1,000,000
LG Seta Grant	304,401	300,435
	64,571,401	**61,526,435**

Capital grants		
Municipal Infrastructure Grant	20,467,000	20,796,000
Integrated National Electrification Grant	5,847,569	8,000,000
Dept of Water & Sanitation (RBIG & ACIP)	5,378,531	15,882,442
Draught Relief Grant	427,760	-
	32,120,860	**44,678,442**
	96,692,261	**106,204,877**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	35,120,967	48,412,452
Unconditional grants received	60,766,401	57,792,435
	95,887,368	**106,204,887**

Equitable Share

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

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	467,203
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
Amount reverted to Treasury	-	(467,203)
	-	-

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

Dept of Water & Sanitation (RBIG & ACIP)

Current-year receipts	5,378,531	6,632,442
Conditions met - transferred to revenue	(5,378,531)	(6,632,442)
	-	-

Acceleration of the bucket eradication programmes in municipalities.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

27. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Current-year receipts	20,467,000	20,796,000
Conditions met - transferred to revenue	(20,467,000)	(20,796,000)
	-	-

Expanded Public Works Programme Grant

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

Integrated National Electrification Grant

Current-year receipts	7,600,000	8,000,000
Conditions met - transferred to revenue	(5,847,569)	(8,000,000)
	1,752,431	-

Financial Management Grant

Current-year receipts	1,875,000	1,800,000
Conditions met - transferred to revenue	(1,875,000)	(1,800,000)
	-	-

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

Draught Relief Grant

Current-year receipts	427,760	-
Conditions met - transferred to revenue	(427,760)	-
	-	-

28. Public contributions and donations

National Treasury contributions	1,850,000	2,214,175
Social Investment Contribution	216,385	82,489
	2,066,385	**2,296,664**

Figures in Rand	2016	2015

29. Employee related costs

13th Cheques	2,556,207	2,394,260
Acting allowances	689,497	816,950
Basic	31,307,350	31,764,033
Car allowance	1,361,254	1,168,730
Employee benefit obligation	(817,088)	(1,462,753)
Other payroll levies	89,604	30,198
Housing benefits and allowances	683,578	39,252
Leave pay provision charge	664,367	(1,344,399)
Long-service awards	227,557	230,825
Medical aid - employer contributions	1,629,620	1,402,107
Occupational allowance	282,670	304,376
Other payroll levies	5,276,248	4,649,850
Overtime payments	3,555,847	2,743,324
SDL	412,734	391,254
Standby Allowance	353,648	257,793
UIF	353,957	343,526
	48,627,050	**43,729,326**

Remuneration of Municipal Manager - BW Kannemeyer

Annual Remuneration	893,568	776,478
Car Allowance	598,200	517,656
Contributions to UIF, Medical and Pension Funds	15,593	13,772
Other	-	203,343
	1,507,361	**1,511,249**

Remuneration of Chief Financial Officer - SA Nyapholi

Annual Remuneration	642,386	617,386
Car Allowance	189,000	180,000
Contributions to UIF, Medical and Pension Funds	121,086	109,809
Other	-	165,222
	952,472	**1,072,417**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

29. Employee related costs (continued)

Remuneration of former Director Technical Services - NB Thobela

Other	-	97,341
	-	**97,341**

Remuneration of Director Corporate Services - NF Malatjie

Annual Remuneration	561,824	477,979
Car Allowance	363,038	315,000
Contributions to UIF, Medical and Pension Funds	120,534	114,072
Other	-	131,373
	1,045,396	**1,038,424**

NF Malatjie - Appointed July 2013

30. Remuneration of councillors

Mayor	797,826	671,488
Speaker	611,447	541,410
Councillors	3,003,922	2,798,411
Ward Commitees	478,000	462,000
	4,891,195	**4,473,309**

Councillors remuneration

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

31. Depreciation and amortisation

Property, plant and equipment	16,866,777	16,755,669
Investment property	425,038	426,315
	17,291,815	**17,181,984**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

32. Impairment of assets

Impairments		
Property, plant and equipment	1,862,327	1,218,031
Other receivables from non-exchange revenue	66,545	79,778
An amendedment to IGRAP 1, require the Phumelela Local Municipality to account for Traffic Fine Income on the accrual basis. The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured. IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate. The municipality therefore accounted for each fine issued on the accural basis, however the probabilty was assessed and it was found that the current year cash received from fines related to less than 43% of fines issued. Therefore the receivable created was impaired with 58% of the remain debtor.		
	1,928,872	**1,297,809**
Total impairment losses (recognised) reversed	**1,928,872**	**1,297,809**

33. Finance costs

DBSA loan	134,468	165,874
Trade and other payables	5,957,803	3,074,347
ABSA term loan	184,830	253,485
Interest Cost - Landfill site provision	8,019,629	1,969,062
Interest Cost - LSA & PEMA	481,407	448,440
	14,778,137	**5,911,208**

34. Debt Impairment

Contributions to debt impairment provision	23,299,751	23,987,195
	23,299,751	**23,987,195**

35. Bulk purchases

Electricity	20,336,349	15,336,320
Water	4,404,472	2,012,354
	24,740,821	**17,348,674**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

36. Contracted services

Specialist Services	3,385,879	7,936,144
Other Contractors	3,900,322	3,576,914
	7,286,201	11,513,058

37. General expenses

Advertising	118,291	257,928
Auditors remuneration	6,230,423	3,471,826
Bank charges	309,070	261,684
Chemicals	1,436,136	1,060,627
Community development and training	854,312	541,350
Conferences and seminars	148,412	114,373
Consumables	308,063	106,300
Entertainment	73,524	51,054
Fuel and oil	976,211	1,302,291
Insurance	328,542	1,011,131
Medical expenses	388	-
Operational grant expenditure	3,509,100	2,523,168
Other expenses	20,835	17,082
Postage and courier	669,808	200,891
Printing and stationery	764,307	414,116
Protective clothing	456,664	431,950
Refuse	336,059	135,880
Rental of equipment	1,541,589	1,206,973
Social investment expenditure	14,144	36,176
Subscriptions and membership fees	1,181,674	591,190
Telephone and fax	1,891,257	2,359,315
Title deed search fees	-	1,274
Training	377,536	497,295
Travel - local	2,755,571	2,032,905
Vehicle licensing	91,131	15,195
	24,393,047	18,641,974

38. Auditors' remuneration

Fees	6,230,423	3,471,826
	6,230,423	3,471,826

39. Operating deficit

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

Operating lease charges		
Motor vehicles		
• Contractual amounts	895,082	302,353

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

39. Operating deficit (continued)

Loss on sale of property, plant and equipment	(82,112)	-
Gain on sale of financial instruments - at cost	25,329	-
Impairment on property, plant and equipment	1,862,327	1,218,031
Impairment of other receivables from non-exchange transactions	66,545	79,778
Depreciation on property, plant and equipment	16,866,777	16,755,669
Depreciation on investment property	425,038	426,315
Employee costs	57,023,474	51,922,066

40. Cash generated from operations

Deficit	(27,705,383)	(2,603,224)
Adjustments for:		
Depreciation	17,291,815	17,181,984
Gain on sale of assets and liabilities	107,441	-
Impairment deficit	1,928,872	1,297,809
Debt impairment	23,299,751	23,987,195
Movements in retirement benefit assets and liabilities	(335,681)	(1,014,313)
Movements in provisions	8,019,629	1,969,062
Changes in working capital:		
Inventories	1,361,333	(1,612,655)
Receivables from exchange transactions	(1,621,584)	4,105,852
Consumer debtors	(23,299,751)	(23,987,195)
Other receivables from non-exchange transactions	(1,072,906)	285,757
Payables from exchange transactions	26,786,659	1,604,916
VAT	964,146	5,251,438
Unspent conditional grants and receipts	1,752,431	(3,243,589)
Consumer deposits	(1,452)	8,347
	27,475,320	**23,231,384**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

41. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	484,822	484,822
Trade and other receivables from exchange transactions	-	11,225,901	11,225,901
Receivables from non-exchange transactions	-	1,881,997	1,881,997
Cash and cash equivalents	470,992	-	470,992
	470,992	**13,592,720**	**14,063,712**

Financial liabilities

	At amortised cost	Total
Consumer deposits	240,269	240,269
Other financial liabilities	1,844,084	1,844,084
Trade and other payables from exchange transactions	127,937,689	127,937,689
Unspent conditional grants and receipts	1,752,431	1,752,431
	131,774,473	**131,774,473**

2015

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	487,086	487,086
Trade and other receivables from exchange transactions	-	9,604,317	9,604,317
Other receivables from non-exchange transactions	-	875,636	875,636
Cash and cash equivalents	589,159	-	589,159
	589,159	**10,967,039**	**11,556,198**

Financial liabilities

	At amortised cost	Total
Consumer deposits	241,721	241,721
Other financial liabilities	2,790,931	2,790,931
Trade and other payables from exchange transactions	101,100,372	101,100,372
	104,133,024	**104,133,024**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

42. Commitments

Authorised capital expenditure

Already contracted for		
• Property, plant and equipment	5,255,679	5,195,048
	5,255,679	**5,195,048**
Total capital commitments		
Already contracted for	5,255,679	5,195,048
	5,255,679	**5,195,048**

Total commitments

Total commitments		
Authorised capital expenditure	5,255,679	5,195,048
	5,255,679	**5,195,048**

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

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

43. Contingencies

Confirmed through legal confirmation letters received that the municpality does not have any contingent liabilities.

44. Related parties

There were no transactions with related parties in the year.

Related party balances

Related party transactions

Purchases from (sales to) related parties	2016	2015
Mantsa Tlala cc	-	2,400

Key management information

Mayor Remuneration : T J MOTAUNG	2016	2015
Annual Remuneration	552,734.16	484,161.84
Car Allowance	184,244.76	161,387.16
Cell phone Allowance	21,864.00	19,872.00
Contributions to Medical and Pension Funds	7,008.91	6,066.67
Other	19,656.50	26,920.12
Total remuneration	**785,508.33**	**698,407.79**

Speaker Remuneration : T R ZWANE	2016	2015
Annual Remuneration	442,187.28	387,329.28
Car Allowance	147,395.64	129,109.68
Cell phone Allowance	21,864.00	19,872.00
Contributions to Medical and Pension Funds	5,710.36	5,098.88
Other		18,664.80
Total remuneration	**617,157.28**	**560,074.64**

COUNCILLORS

Remuneration of Councillor: S E TSHABALALA	2016	2015
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,256.67	1,901.76
Other	-	-
Total remuneration	**253,698.67**	**207,962.76**

Remuneration of Councillor: S J M MOFOKENG	2016	2015
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,264.09	1,936.93
Other	1,485.18	7,032.30
Total remuneration	**255,191.27**	**215,030.23**

Remuneration of Councillor: M D NKABINDE	2016	2015
Annual Remuneration	43,964.91	145,248.84
Car Allowance	14,655.09	48,416.16
Cell phone Allowance	13,689.00	12,396.00
Contributions to Medical and Pension Funds	625.33	1,929.06
Other	-	5,459.12
Total remuneration	**72,934.33**	**213,449.18**

Figures in Rand	2016	2015

44. Related parties (continued)

Remuneration of Councillor: O A MOKOENA		
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,256.67	1,903.80
Other	-	407.10
Total remuneration	**253,698.67**	**208,371.90**

Remuneration of Councillor: O S TSHABALALA		
Annual Remuneration	-	108,936.63
Car Allowance	-	36,312.12
Cell phone Allowance	-	9,297.00
Contributions to Medical and Pension Funds	-	1,426.32
Total remuneration	**-**	**155,972.07**

Remuneration of Councillor: J M NGWENYA-SITHEBE		
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,263.62	1,908.71
Other	1,390.80	1,389
Total remuneration	**255,096.42**	**209,358.71**

Remuneration of Councillor: M D KOBENI		
Annual Remuneration	229,044.00	199,716.84
Car Allowance	76,347.96	66,572.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	3,125.98	2,683.19
Other	15,612.72	18,288.72
Total remuneration	**353,470.66**	**299,656.91**

Remuneration of Councillor: D A WESSELS		
Annual Remuneration	323,465.91	199,716.84
Car Allowance	107,822.05	66,572.16
Cell phone Allowance	49,985.00	12,396.00
Contributions to Medical and Pension Funds	4,384.41	2,591.76
Other	7,445.56	-
Total remuneration	**493,102.93**	**281,276.76**

Remuneration of Councillor: S M ZWANE		
Annual Remuneration	-	145,248.84
Car Allowance	-	48,416.16
Cell phone Allowance	-	12,396.00
Contributions to Medical and Pension Funds	-	1,970.03
Other	-	13,650.54
Total remuneration	**-**	**221,681.57**

Remuneration of Councillor: A D RADEBE		
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,256.67	1,901.76
COther	-	-
Total remuneration	**253,698.67**	**207,962.76**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

44. Related parties (continued)

Remuneration of Councillor: T E RADEBE		
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,259.72	1,909.79
Other	610.00	1,605.64
Total remuneration	**254,311.72**	**209,576.43**

Remuneration of Councillor: L M MSIMANGA		
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,526.06	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,256.67	1,901.76
Other	-	-
Total remuneration	**253,699.17**	**207,962.76**

Remuneration of Councillor: T N MASITENG		
Annual Remuneration	166,576.44	145,248.84
Car Allowance	55,525.56	48,416.16
Cell phone Allowance	29,340.00	12,396.00
Contributions to Medical and Pension Funds	2,313.60	1,920.40
Other	11,385.72	3,725.80
Car Allowance	**23,698.11**	**-**

Car Allowance		
Car Allowance	23,698.11	-
Car Allowance	23,698.11	-
Cell phone Allowance	9,279.29	-
Contributions to Medical and Pension Funds	-	-
Other	6,090.92	-
Total remuneration	**39,068.32**	**-**

Figures in Rand	2016	2015

45. Prior period errors

The following errors have occurred during the financial year:

Statement of Financial Position:
1. Employee Benefits - Correction of employee benefits, incorrectly calculated.
2. Property, plant and equipment - Recalculation of work in progress and unbundling. Identification of additional additions and unbundling during the audit.
3. Inventory - Correction of stock on hand
4. Consumer debtors - Correction of provision.
5. Payables from exchange transactions - Correction of retention payable. Correction of 13th cheque accrual in prior years.
6. Provisions - Correction of land fill site provision in prior year.

Statement of Financial Performance:
1. Public contributions and donations - Recalculation of work in progress.
2. Repairs and maintenance - Recalculation of work in progress.
3. Personel - Correction of employee benefits and 13th cheque incorrectly calculated.
4. Depreciation and amortisation - Correction of project capitalised
5. Finance costs - Correction of employee benefits and land fill site provision incorrectly calculated.
6.General Expenses - Correction of audit fees paid.

Statement of financial position		
Current Assets		
Inventories		162,494
Total Current Assets		**162,494**
Non-Current Assets		
Property, plant and equipment		(1,130,045)
Total Non-Current Assets		**(1,130,045)**
Total Assets		**(967,551)**
Current Liabilities		
Employee benefit obligation		216,828
Payables from exchange transactions		(670,611)
Provisions		665,676
Total Current Liabilities		**211,893**
Non-Current Liabilities		
Employee benefit obligation		3,395,870
Provisions		(41,790,194)
Total Non-Current Liabilities		**(38,394,324)**
Total Liabilities		(38,182,431)
Net Assets		**(39,149,982)**
Statement of Financial Performance		
Revenue		
Revenue from Non Exchange transactions		
Public contributions and donations		82,489
Total revenue from non-exchange transactions		**82,489**
Total revenue		**82,489**
Expenditure		
Personnel		24,164
Depreciation and amortisation		(281,190)
Finance costs		(908,826)
Repairs and maintenance		(1,134,424)
General Expenses		28,018
Total expenditure		**(2,272,258)**
Deficit for the year		**(2,189,769)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

46. Comparative figures

Certain comparative figures have been reclassified

1. Lease rentals on Operating Leases - Correction of operating leases classified as contracted services
2. Receivables from exchange transactions - Reclassisfication of retentions..

The effects of the reclassification are as follows:

Statement of financial position		
Receivables from exchange transactions		(21,964)
Payables from exchange transactions		21,964
Statement of Financial Performance		
Contracted services		302,353
Lease rentals on Operating Leases		(302,353)

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

47. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of cash and cash equivalents and equity as disclosed in the statement of financial position.
Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio. This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Gearing ratio:

The gearing ratios at 2016 and 2015 respectively were as follows:

Less: Cash and cash equivalents	-470,992	-589,159
Net debt	-196,949,478	-196,949,478
Total equity	473,960,715	542,290,782
Total capital	277,011,237	345,341,304
Gearing ratio	58.45%	63.68%

The gearing ratio of the municipality decreased due to DWARF and ESKOM liabilities respectively increasing. Management has entered into a settlement agreement with ESKOM to repay its debt, and are in continuous communication with DWARF regarding the outstanding debt.

Financial risk management

The municipality's is expose to a variety of financial risks: market risk , fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.
The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.
Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Figures in Rand	2016	2015

47. Risk management (continued)

As at 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	126,352,910	-	-	-
Finance lease obligation	0			

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	99,613,074	-	-	-
Finance lease obligation	0	0	0	

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk

Financial instrument	Current Interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	Tiered	432,192.00	-	-	-	-
Call investment deposits	0.00%	-	-	-	-	-
Other financial assets	0.00%	-	-	-	-	-

Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.
Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is

47. Risk management (continued)

specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

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

Financial instrument	2016	2015
Investments	-	-
Receivables from non-exchange transactions	7,288.00	8,532.00
Receivables from exchange transactions	906,075.00	1,084,419.00
Bank balances and cash	470,992.00	589,159.00

The maximum credit and interest risk exposure in respect of the relevant financial instruments amounts to as indicated above.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income 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. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.
There has been no change to the municipality's exposure to market risk on the manner in which managed.

Price risk
The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.
Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

48. Going concern

The unaudited 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.

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 473,960,715 and that the municipality's total assets exceed its liabilities by R 473,960,715

The municipality is experience some financial difficulties, indicators are as follows:.

1. Suppliers are not paid within the legislative 30 days;

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

48. Going concern (continued)

2. Employee benefit obligations are unfunded;

3. High levels of distribution losses;

4. Slow collection and low recoverability of outstanding consumer accounts; and

5. Unfavourable financial ratios

The municipality is exploring alternative options to improve its financial position. Although certain financial ratios may appear unfavourable, the municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2015.

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

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

49. Events after the reporting date

New Council elected on 3rd of August 2016.

Cllr TJ Motaung
Cllr TR Zwane
Cllr DA Wessels
Cllr KA Sibeko
Cllr SE Tshabalala
Cllr JM Mofokeng
Cllr OA Mokoena
Cllr MB Mhlambi
Cllr TM Tshabalala
Cllr VP Kibido
Cllr MM Mashinini
Cllr BV Khumalo
Cllr MS Ntsele
Cllr NJ Mokoena
Cllr B Mthombeni

50. Unauthorised expenditure

	2016	2015
Opening Balance	279,732,564	117,406,290
Movement	95,720,909	162,326,274
	375,453,473	**279,732,564**

Unauthorised expenditure will be investigated in terms of section 32 of the MFMA.

No expenditure was recovered or written off during the year.

Please refer to the Appropriation Statement for the detailed particulars that related to the unauthorised expenditure incurred during the year.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

51. Fruitless and wasteful expenditure

Opening balance	6,354,692	2,657,867
Movement	6,016,113	3,696,825
	12,370,805	**6,354,692**

Fruitless expenditure mainly relates to the interest that has been charged on outstanding accounts:

Eskom interest	5,713,172
Auditor General	119,009
SARS	158,742
Telkom/Post office	23,827
Ben Hur Bande BK	306
Iniswa Promotions	948
Educatory Eletro	111

No expenditure was recovered or written off during the year.

Fruitless and wasteful expenditure will be will be investigated in terms of section 32 of the MFMA.

52. Irregular expenditure

Opening balance	135,624,988	129,748,421
Add: Supply Chain Deviations - current year	383,035	5,876,567
Add: Other Irregular Expenditure - current year	9,556,560	-
	145,564,583	**135,624,988**

Analysis of expenditure awaiting condonation per age classification

Current year	9,939,595	5,876,567
Prior years	135,624,988	129,748,421
	145,564,583	**135,624,988**

53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	673,110	567,190
Amount paid - current year	(663,694)	(567,190)
	9,416	-

Material losses

Water Distribution Loss	3,147,562	1,242,970
Electricity Distribution Loss	8,735,352	7,532,912
	11,882,914	**8,775,882**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

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

Audit fees

Opening balance	152,269	14,687
Current year subscription / fee	6,230,423	3,989,822
Amount paid - current year	(3,081,320)	(3,852,240)
	3,301,372	**152,269**

PAYE and UIF

Current year subscription / fee	6,367,924	5,274,667
Amount paid - current year	(5,304,824)	(5,274,667)
	1,063,100	-

Pension and Medical Aid Deductions

Current year subscription / fee	10,345,035	9,037,549
Amount paid - current year	(8,536,699)	(9,037,549)
	1,808,336	-

VAT

VAT payable	3,206,148	2,242,002
	3,206,148	**2,242,002**

All VAT returns (except 3 months) have been submitted by the due date throughout the year.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

53. 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 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	446	-	446
AD Radebe	940	436	1,376
TE Radebe	506	209	715
KA Sibeko	-	2,511	2,511
	1,892	**3,156**	**5,048**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
AD Radebe	374	2,994	3,368
	374	**2,994**	**3,368**

30 June 2016	Highest outstanding amount	Aging (in days)
KA Sibeko	2,511	180
AD Radebe	1,375	120
TE Radebe	715	150
TJ Motaung	446	30
	5,047	**480**

30 June 2015	Highest outstanding amount	Aging (in days)
AD Radebe	3,367	180
TE Radebe	747	90
	4,114	**270**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and condoned by Council. The expenses incurred as listed hereunder have been condoned:

Incident		
Emergency repairs to sewer Ezenzeleni - Mandla Siyabonga Trading Enterprise	-	32,500
Emergency repair to sewer pump in Thembalihle - Melokuhle Management	-	64,310
Emergency repair to electric motor in Warden - Ezenzeleni	-	41,587
Repair of sewer pump: Vrede pumpstation - BLUE SEAL ENGINEERING CC	17,089	-
Repair of sewer pump: Vrede pumpstation - Miya Technologies and project (pty)ltd	36,460	-
Installation of new pump:Vrede waterworks -Miya Technologies and project (pty)ltd	63,163	-
Repair of sewer pump: Vrede pumpstation - Miya Technologies and project (pty)ltd	46,329	-
Repair of sewer - Tom Development	426,243	-
Repair of a standby portable water pump - Miya Technologies and project (pty)ltd	62,084	-
Miya Technologies and project (pty)ltd	44,551	-
Boreholes, equipment and repairs - Indipendent water cc	276,400	-
	972,319	**138,397**

54. Utilisation of Long-term liabilities reconciliation

Long-term liabilities	1,844,084	2,790,931

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Long term liabilities are serviced regularly in terms of the agreements.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2016	2015

55. Deviation from supply chain management regulations

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

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. 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.

Name of the Company	Procured Services	Department	Amount
BLUE SEAL ENGINEERING CC	Repair of sewer pump	Technical	R 17,088.60
Miya Technologies and project (pty)ltd	Repair of sewer pump	Technical	R 36,460.00
Miya Technologies and project (pty)ltd	Installation of new pump	Technical	R 63,163.00
Miya Technologies and project (pty)ltd	Repair of sewer pump	Technical	R 46,329.00
Tom Development	Repair at sewer plant	Technical	R 426,243.15
Miya Technologies and project (pty)ltd	Repair of a standby pump	Technical	R 62,084.00
Miya Technologies and project (pty)ltd	Repair of a standby pump	Technical	R 44,551.00
Indipendent water cc	Boreholes repairs	Technical	R 276,399.82
		TOTAL	R 972,318.57

Appendix B

Analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	177,735,731	-	-	-	-	-	177,735,731	-	-	-	-	-	-	177,735,731
Buildings (Separate for AFS purposes)	13,931,333	9,824,723	-	-	-	-	23,756,056	(12,450,679)	-	-	(507,537)	-	(12,958,216)	10,797,840
	191,667,064	**9,824,723**	-	-	-	-	**201,491,787**	**(12,450,679)**	-	-	**(507,537)**	-	**(12,958,216)**	**188,533,571**
Infrastructure														
Roads, Pavements & Bridges	236,023,956	-	-	-	-	-	236,023,956	(72,799,443)	-	-	(6,633,771)	-	(79,433,214)	156,590,742
Electricity	10,922,940	-	-	-	-	-	10,922,940	(2,742,808)	-	-	(463,442)	-	(3,206,250)	7,716,690
Water purification	227,851,944	10,021,820	-	-	-	-	237,873,764	(65,391,020)	-	-	(5,428,835)	-	(70,819,855)	167,053,909
Waste water	104,018,821	9,357,598	-	-	-	-	113,376,419	(42,664,124)	-	-	(2,268,614)	-	(44,932,738)	68,443,681
	578,817,661	**19,379,418**	-	-	-	-	**598,197,079**	**(183,597,395)**	-	-	**(14,794,662)**	-	**(198,392,057)**	**399,805,022**
Community Assets														

Appendix B

Analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Other assets														
Plant & equipment	11,643,100	29,850	(1,024)	-	(5,879,152)	-	5,792,774	(7,141,389)	419	-	(578,673)	4,606,477	(3,113,166)	2,679,608
Computer Equipment	2,412,823	110,492	(24,829)	-	(196,709)	-	2,301,777	(905,217)	15,111	-	(223,809)	144,872	(969,043)	1,332,734
Office Equipment	2,708,759	58,662	-	-	(701,104)	-	2,066,317	(1,462,056)	-	-	(201,025)	552,488	(1,110,593)	955,724
Office Equipment - Leased	1,868,168	-	-	-	-	-	1,868,168	(1,401,126)	-	-	(186,817)	-	(1,587,943)	280,225
Transport Assets	5,545,775	-	(122,434)	-	(1,864,235)	-	3,559,106	(3,554,746)	50,646	-	(357,583)	1,475,035	(2,386,648)	1,172,458
Work in progress	50,904,434	25,968,817	(28,999,243)	-	-	-	47,874,008	-	-	-	-	-	-	47,874,008
	75,083,059	**26,167,821**	**(29,147,530)**	**-**	**(8,641,200)**	**-**	**63,462,150**	**(14,464,534)**	**66,176**	**-**	**(1,547,907)**	**5,778,872**	**(9,167,393)**	**54,294,757**

Appendix B

Analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	191,667,064	9,824,723		-			201,491,787	(12,450,679)	-		(507,537)	-	(12,958,216)	188,533,571
Infrastructure	578,817,661	19,379,418	-			-	598,197,079	(183,597,395)			(14,794,662)		(198,392,057)	399,805,022
Other assets	75,083,059	26,167,821	(29,147,530)	-	(8,641,200)	-	63,462,150	(14,464,534)	66,176	-	(1,547,907)	6,778,872	(9,167,393)	54,294,757
	845,567,784	55,371,962	(29,147,530)	-	(8,641,200)	-	863,151,016	(210,512,608)	66,176	-	(16,850,106)	6,778,872	(220,517,666)	642,633,350
Agricultural/Biological assets														
Intangible assets														
Investment properties														
Total														
Land and buildings	191,667,064	9,824,723					201,491,787	(12,450,679)			(507,537)		(12,958,216)	188,533,571
Infrastructure	578,817,661	19,379,418	-				598,157,079	(183,597,395)			(14,794,662)	-	(198,392,057)	399,805,022
Other assets	75,083,059	26,167,821	(29,147,530)	-	(8,641,200)	-	63,462,150	(14,464,534)	66,176	-	(1,547,907)	6,778,872	(9,167,393)	54,294,757
	845,567,784	55,371,962	(29,147,530)	-	(8,641,200)	-	863,151,016	(210,512,608)	66,176	-	(16,850,106)	6,778,872	(220,517,666)	642,633,350

Appendix B

Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Impairment loss Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	177,735,731	-	-	-		-	177,735,731	-	-	-		-	-	177,735,731
Buildings (Separate for AFS purposes)	13,931,333	-	-	-	-	-	13,931,333	(12,112,720)	-	-	(337,959)	-	(12,450,679)	1,480,654
	191,667,064	-	-	-	-	-	191,667,064	(12,112,720)	-	-	(337,959)	-	(12,450,679)	179,216,385
Infrastructure														
Roads, Pavements & Bridges	225,712,113	10,311,844	-	-		-	236,023,957	(66,301,846)	-	-	(6,497,598)	-	(72,799,444)	163,224,513
Electricity	10,922,940	-	-	-		-	10,922,940	(2,279,366)	-	-	(463,442)	-	(2,742,808)	8,180,132
Water purification	205,872,153	21,979,791	-	-		-	227,851,944	(60,462,437)	-	-	(4,928,583)	-	(65,391,020)	162,460,924
Waste water	104,018,821	-	-	-		-	104,018,821	(40,532,925)	-	-	(2,131,199)	-	(42,664,124)	61,354,697
	546,526,027	32,291,635	-	-	-	-	578,817,662	(169,576,574)	-	-	(14,020,822)	-	(183,597,396)	395,220,266
Community Assets														

Appendix B

Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Impairment loss Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Other assets														
Plant & equipment	12,293,641	193,756	-	-	-	(844,297)	11,643,100	(6,351,285)	-	-	(1,159,357)	369,254	(7,141,388)	4,501,712
Computer Equipment	2,337,102	492,609	-	-	-	(416,889)	2,412,822	(802,215)	-	-	(216,503)	113,501	(905,217)	1,507,605
Office Equipment	2,825,025	109,539	-	-	-	(225,805)	2,708,759	(1,305,463)	-	-	(265,915)	109,322	(1,462,056)	1,246,703
Transport Assets	6,283,556	-	-	-	-	(737,781)	5,545,775	(3,414,834)	-	-	(554,577)	414,665	(3,554,746)	1,991,029
Leased assets	1,868,168	-	-	-	-	-	1,868,168	(1,214,310)	-	-	(186,817)	-	(1,401,127)	467,041
Work in progress	58,126,577	25,069,491	-	(32,291,634)	-	-	50,904,434	-	-	-	-	-	-	50,904,434
	83,734,069	**25,865,395**	**-**	**(32,291,634)**	**-**	**(2,224,772)**	**75,083,058**	**(13,088,107)**	**-**	**-**	**(2,383,169)**	**1,006,742**	**(14,464,534)**	**60,618,524**

Appendix B

Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Impairment loss Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	191,667,064	-	-	-	-	-	**191,667,064**	(12,112,720)	-	-	(337,959)	-	**(12,450,679)**	179,216,385
Infrastructure	546,526,027	32,291,635	-	-	-	-	**578,817,662**	(169,576,574)	-	-	(14,020,822)	-	**(183,597,396)**	395,220,266
Other assets	83,734,069	25,865,395	-	(32,291,634)	-	(2,224,772)	**75,083,058**	(13,088,107)	-	-	(2,383,169)	1,006,742	**(14,464,534)**	60,618,524
	821,927,160	**58,157,030**	**-**	**(32,291,634)**	**-**	**(2,224,772)**	**845,567,784**	**(194,777,401)**	**-**	**-**	**(16,741,950)**	**1,006,742**	**(210,512,609)**	**635,055,175**
Agricultural/Biological assets														
Intangible assets														
Investment properties														
Total														
Land and buildings	191,667,064	-	-	-	-	-	**191,667,064**	(12,112,720)	-	-	(337,959)	-	**(12,450,679)**	179,216,385
Infrastructure	546,526,027	32,291,635	-	-	-	-	**578,817,662**	(169,576,574)	-	-	(14,020,822)	-	**(183,597,396)**	395,220,266
Other assets	83,734,069	25,865,395	-	(32,291,634)	-	(2,224,772)	**75,083,058**	(13,088,107)	-	-	(2,383,169)	1,006,742	**(14,464,534)**	60,618,524
	821,927,160	**58,157,030**	**-**	**(32,291,634)**	**-**	**(2,224,772)**	**845,567,784**	**(194,777,401)**	**-**	**-**	**(16,741,950)**	**1,006,742**	**(210,512,609)**	**635,055,175**