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Phumelela Local Municipality

Unaudited Annual financial statements
for the year ended 30 June 2017

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Unaudited Annual Financial Statements for the year ended 30 June 2017

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
Councillors	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
	Cllr MD Kobeni
	Cllr TN Masiteng
	Cllr OS Tshabalala
	Cllr JM Ngwenya Sithebe
	Cllr LM Msimanga
	Cllr AD Radebe
	Cllr TE Radebe
Grading of local authority	Low Capacity (Grade 2)
Accounting Officers	Mrs NF Malatjie
	Mr BW Kannemeyer (Resigned)
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
	9835
Bankers	ABSA Bank Limited
	First National Bank Limited

General Information

Auditors	Auditor General South Africa
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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CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
DWS	The Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
GAAP	South African Statements of Generally Accepted Accounting Practice
GLCCM	General Landfill Closure Costing Model
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
INEP	Intergrated National Electrification Programme
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 Officers' Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers 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 officers acknowledge that she are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officers sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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 officers have reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officers 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 officers on 31 August 2017 and were signed on its behalf by:

Accounting Officer
Mrs NF Malatjie

Accounting Officers' Report

The accounting officers submit their report for the year ended 30 June 2017.

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 23 032 506 (2016: deficit R 27 705 383).

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 2018 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 officers are aware of matters or circumstances arising since the end of the financial year that require additional disclosure in the financial statements.

A special council meeting was held on 31 July 2017 where council resolution item 01/07/2017 was taken to appoint Mrs NF Malatjie as Accounting Officer effective 1 August 2017. Mr SM Mahlangu was appointed as acting Director Corporate Services effective 1 August 2017.

4. Accounting Officers' 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 Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name
Mr B.W. Kannemeyer
Mrs NF Malatjie

Accounting Officers' Report

7. Corporate governance

General

The accounting officers is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officers 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 III Report on Corporate Governance for South Africa 2009. The accounting officers 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:

Audit and risk committee

The Audit committee met 4 times during the financial year to review matters necessary to fulfil its role.

The following members conclude the audit committee:
- Mr GA Ntsala (Former AC Chairperson, Contract expired 31 December 2016)
- Mr KM Mojatau (AC Chairperson)
- Mrs DS Lebeko (Contract expired 31 December 2016)
- Mrs ET Femele (Member)
- Mr S Morare (Member)
- Ms MR Reid (Member)

Meeting Dates:

2016/08/26
2016/10/07
2016/11/04
2017/05/19

8. Bankers

ABSA Bank and First National Bank Limited is used for daily operations as well as investing of grant funding.

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.

Phumelela Local Municipality did not enter into any Public Private Partnership for the 2016/2017 financial year, nor does it have any existing PPP's.

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	8	576 257	1 091 697
Receivables from exchange transactions	9&12	4 998 612	11 225 901
Receivables from non-exchange transactions	10&12	607 236	1 881 997
VAT receivable	11	7 846 359	-
Consumer debtors		-	-
Cash and cash equivalents	13	1 182 093	470 992
		15 210 557	**14 670 587**
Non-Current Assets			
Investment property	3	16 685 118	17 110 064
Property, plant and equipment	4	683 952 713	636 011 124
Intangible assets		-	-
Heritage assets	5	5 761	5 761
Other financial assets	6	481 456	484 822
		701 125 048	**653 611 771**
Total Assets		**716 335 605**	**668 282 358**
Liabilities			
Current Liabilities			
Other financial liabilities	15	473 043	1 045 033
Finance lease obligation		-	-
Payables from exchange transactions	17	187 396 055	127 599 037
VAT payable	18	-	3 206 148
Consumer deposits	19	238 982	240 269
Employee benefit obligation	7	658 959	729 402
Unspent conditional grants and receipts	14	-	1 752 431
Provisions	16	8 819 635	-
Bank overdraft	13	-	-
		197 586 674	**134 572 320**
Non-Current Liabilities			
Other financial liabilities	15	326 009	799 051
Employee benefit obligation	7	4 496 436	4 510 219
Unspent conditional grants and receipts	14	-	-
Provisions	16	66 050 499	57 492 279
		70 872 944	**62 801 549**
Total Liabilities		**268 459 618**	**197 373 869**
Net Assets		**447 875 987**	**470 908 489**
Accumulated surplus		447 875 987	470 908 489

* See Note 44

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Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	30 855 009	29 550 541
Rental of facilities and equipment	22	391 518	949 587
Other income	23	441 264	508 343
Interest received	24	9 493 999	9 900 076
Total revenue from exchange transactions		**41 181 790**	**40 908 547**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	11 870 853	11 897 376
Transfer revenue			
Government grants & subsidies	26	127 415 501	96 692 261
Public contributions and donations	27	4 470 006	2 066 385
Fines	20	239 380	146 350
Total revenue from non-exchange transactions		**143 995 740**	**110 802 372**
Total revenue	20	**185 177 530**	**151 710 919**
Expenditure			
Employee related costs	28	(55 743 415)	(52 613 686)
Remuneration of councillors	29	(5 282 128)	(4 891 195)
Depreciation	30	(17 190 911)	(17 291 815)
Impairment loss	31	(103 166)	(1 928 872)
Finance costs	32	(30 267 720)	(14 296 730)
Lease rentals on operating lease		(257 155)	(895 082)
Debt Impairment	33	(35 451 633)	(23 299 751)
Bad debts written off	33	(676 013)	-
Collection costs		(117 178)	(164 445)
Repairs and maintenance		(5 675 729)	(7 279 299)
Bulk purchases	34	(30 543 066)	(24 740 821)
Contracted services	35	(7 961 968)	(7 286 201)
General Expenses	36	(18 939 954)	(24 392 910)
Total expenditure		**(208 210 036)**	**(179 080 807)**
Operating deficit	38	**(23 032 506)**	**(27 369 888)**
Loss on disposal of assets and liabilities		-	(107 441)
Deficit for the year		**(23 032 506)**	**(27 477 329)**

* See Note 44

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2015	**498 385 818**	**498 385 818**
Changes in net assets		
Surplus for the year	(27 477 329)	(27 477 329)
Total changes	(27 477 329)	(27 477 329)
Opening balance as previously reported	470 341 783	470 341 783
Adjustments		
Prior year adjustments	566 710	566 710
Restated* Balance at 01 July 2016 as restated*	**470 908 493**	**470 908 493**
Changes in net assets		
Surplus for the year	(23 032 506)	(23 032 506)
Total changes	(23 032 506)	(23 032 506)
Balance at 30 June 2017	**447 875 987**	**447 875 987**

* See Note 44

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Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 *Restated**
Cash flows from operating activities			
Receipts			
Property rates taxation		12 259 011	11 897 376
Sale of goods and services		29 680 563	29 386 887
Grants		131 647 217	99 651 066
Interest income		9 493 999	9 900 076
		183 080 790	150 835 405
Payments			
Employee costs		(61 109 769)	(57 840 562)
Suppliers		(25 242 982)	(51 222 792)
Finance costs		(30 267 720)	(14 296 730)
		(116 620 471)	(123 360 084)
Net cash flows from operating activities	39	**66 460 319**	**27 475 321**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(64 707 552)	(26 372 718)
Proceeds from sale of financial assets		3 366	27 593
Net cash flows from investing activities		**(64 704 186)**	**(26 345 125)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1 045 032)	(946 847)
Finance lease payments		-	(301 515)
Net cash flows from financing activities		**(1 045 032)**	**(1 248 362)**
Net increase/(decrease) in cash and cash equivalents		**711 101**	**(118 166)**
Cash and cash equivalents at the beginning of the year		470 992	589 158
Cash and cash equivalents at the end of the year	13	**1 182 093**	**470 992**

* See Note 44

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	30 373 821	6 122 584	**36 496 405**	30 855 009	**(5 641 396)**	This is mainly due to the muncipality not collecting enough revenue as anticipated due to tempering of meters and by passing of electricty.
Rental of facilities and equipment	4 592 838	(113 175)	**4 479 663**	391 518	**(4 088 145)**	Some of the rental contracts came to an end and were not renewed.
Other income	3 612 152	(285 318)	**3 326 834**	441 264	**(2 885 570)**	Less income was generated than anticipated
Interest received - investment	12 171 843	129 013	**12 300 856**	9 493 999	**(2 806 857)**	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	**50 750 654**	**5 853 104**	**56 603 758**	**41 181 790**	**(15 421 968)**	
Revenue from non-exchange transactions						
Taxation revenue						

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
Property rates	11 992 790	-	**11 992 790**	11 870 853	**(121 937)**	This is mainly due to the municipality receiving more revenue from annual rates payer and the the 50% discount that Council approved for debtors/ Consumers
Transfer revenue						
Government grants & subsidies	62 840 000	(1 752 000)	**61 088 000**	127 415 501	**66 327 501**	This is due to the inclusion of both the operational and capital grants in the financial statements whereas this are separate on the budget
Public contributions and donations	-	-	**-**	4 470 006	**4 470 006**	This is due to the contribution by NT towards the municipality's audit fees, which was not budgeted for.
Fines, Penalties and Forfeits	103 036	(28 226)	**74 810**	239 380	**164 570**	More fines were issued than management anticipated.
Total revenue from non-exchange transactions	**74 935 826**	**(1 780 226)**	**73 155 600**	**143 995 740**	**70 840 140**	
Total revenue	**125 686 480**	**4 072 878**	**129 759 358**	**185 177 530**	**55 418 172**	
Expenditure						
Personnel	(66 871 105)	3 909 844	**(62 961 261)**	(55 743 415)	**7 217 846**	Some of the budgeted positions were not filled during the year

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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
Remuneration of councillors	(4 804 730)	-	**(4 804 730)**	(5 282 128)	**(477 398)**	This is mainly Due to back pays that the municipality had to implement during the finanical year(upper limits)
Depreciation and amortisation	(1 983 742)	600 000	**(1 383 742)**	(17 190 911)	**(15 807 169)**	Less depreciated was provided for during the budget process.
Impairment loss/ Reversal of impairments	-	-	**-**	(103 166)	**(103 166)**	This is included under depreciation on the budget
Finance costs	(634 347)	(3 500 000)	**(4 134 347)**	(30 267 720)	**(26 133 373)**	This is mainly due to the finance cost on landfill site provision
Lease rentals on operating lease	-	-	**-**	(257 155)	**(257 155)**	These were not provided for in the budget as they were not anticipated by management
Debt Impairment	(1 005 900)	-	**(1 005 900)**	(35 451 633)	**(34 445 733)**	This is due to the slow payment rate by consumers as reflected under receivables
Bad debts written off	-	-	**-**	(676 013)	**(676 013)**	This is mainly due to the 50% discount that Council approved for debtors/ Consumers which was not initially budgeted for and the other 50% to be written off

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
Collection costs	-	-	**-**	(117 178)	**(117 178)**	These were not provided for in the budget as they were not anticipated by management
Repairs and maintenance	-	(3 900 715)	**(3 900 715)**	(5 675 729)	**(1 775 014)**	This is due to the aging infrastructure of the municipality'.
Bulk purchases	(17 124 680)	(5 562 978)	**(22 687 658)**	(30 543 066)	**(7 855 408)**	This is due to the distribution losses suffered on electricity distribution
Contracted Services	(2 900 000)	655 682	**(2 244 318)**	(7 961 968)	**(5 717 650)**	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	(30 310 847)	3 735 871	**(26 574 976)**	(18 939 954)	**7 635 022**	This is due to austerity measures introduced by the municipality which led to the curbing of expenditure on less important items.
Total expenditure	**(125 635 351)**	**(4 062 296)**	**(129 697 647)**	**(208 210 036)**	**(78 512 389)**	
Deficit before taxation	**51 129**	**10 582**	**61 711**	**(23 032 506)**	**(23 094 217)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**51 129**	**10 582**	**61 711**	**(23 032 506)**	**(23 094 217)**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	535 000	-	**535 000**	576 257	**41 257**	More inventory items were purchased than initially anticipated.
Receivables from exchange transactions	-	-	**-**	4 998 612	**4 998 612**	This is included under consumer debtors on the budget
Receivables from non-exchange transactions	-	-	**-**	607 236	**607 236**	This is included under consumer debtors on the budget
VAT receivable	-	-	**-**	7 846 359	**7 846 359**	The municipality was not anticipating a VAT Receivable during the preparation of the budget
Consumer debtors	15 047 563	-	**15 047 563**	-	**(15 047 563)**	This is due to the the breakdown between Receivables from Exchange/non Exchange as wellas under budgeting for debt impairment.
Cash and cash equivalents	(22 887 535)	24 538 118	**1 650 583**	1 182 093	**(468 490)**	The municipality used more cash than originally anticipated.t
	(7 304 972)	**24 538 118**	**17 233 146**	**15 210 557**	**(2 022 589)**	

Non-Current Assets

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
Investment property	17 404 797	7 059	**17 411 856**	16 685 118	**(726 738)**	The municipality overstated its invetment property on the annual budget
Property, plant and equipment	644 693 523	-	**644 693 523**	683 952 713	**39 259 190**	
Heritage assets	-	-	**-**	5 761	**5 761**	No provision was made in the anuual budget for heritage assets
Other financial assets	-	-	**-**	481 456	**481 456**	No provision was made in the anuual budget for financial assets
	662 098 320	**7 059**	**662 105 379**	**701 125 048**	**39 019 669**	
Total Assets	**654 793 348**	**24 545 177**	**679 338 525**	**716 335 605**	**36 997 080**	
Liabilities						
Current Liabilities						
Other financial liabilities	64 172	-	**64 172**	473 043	**408 871**	This is due to the classification of more loans as non-current instead of current on the budget
Payables from exchange transactions	-	-	**-**	187 396 053	**187 396 053**	This was not provided for in the budget.
Consumer deposits	879 436	-	**879 436**	238 982	**(640 454)**	Less deposits were received from consumers than anticipated.
Employee benefit obligation	-	-	**-**	658 959	**658 959**	This was not provided for in the budget.
Provisions	-	-	**-**	8 819 635	**8 819 635**	This was not provided for in the budget.
	943 608	**-**	**943 608**	**197 586 672**	**196 643 064**	
Non-Current Liabilities						
Other financial liabilities	2 591 222	-	**2 591 222**	326 009	**(2 265 213)**	This is due to the municipality not taking up loans that were budgeted for.

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	-	-	**-**	4 496 436	**4 496 436**	No provision was made for employee benefit obligation on the annual budget.
Provisions	29 224 993	-	**29 224 993**	66 050 499	**36 825 506**	This is due to the high increase in the provision for landfill site.
	31 816 215	**-**	**31 816 215**	**70 872 944**	**39 056 729**	
Total Liabilities	**32 759 823**	**-**	**32 759 823**	**268 459 616**	**235 699 793**	
Net Assets	**622 033 525**	**24 545 177**	**646 578 702**	**447 875 989**	**(198 702 713)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	622 033 525	24 545 177	**646 578 702**	447 875 989	**(198 702 713)**	Net effect of adjustments

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.

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

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.

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.

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

1.5 Property, plant and equipment (continued)

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.

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.

1.7 Heritage assets (continued)

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.

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.

1.7 Heritage assets (continued)

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 included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

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 entity.

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

A concessionary loan is a loan granted to or received by an 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).

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.

1.8 Financial instruments (continued)

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 municipality’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 municipality had not acquired, issued or disposed of the financial instrument.

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

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

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

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

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

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:

Class	Category

1.8 Financial instruments (continued)

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 entity 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 municipality 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.

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:

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality 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 municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality 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.

1.8 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality 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 municipality does not offset the transferred asset and the associated liability.

1.9 Leases

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

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

Finance leases - lessee

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

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

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

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

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

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.

1.11 Impairment of cash-generating assets (continued)

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.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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 assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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 managed with the 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

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.

1.14 Employee benefits (continued)

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.

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.

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.

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.

1.15 Provisions and contingencies (continued)

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 42.

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.

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

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

1.15 Provisions and contingencies (continued)

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.

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.

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.

1.17 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

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

Accounting Policies

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.

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.

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

Accounting Policies

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.

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 2016/07/01 to 2017/06/30.

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.

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 12 (as amended 2016): Inventories	01 April 2017	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2017	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2017	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2017	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2017	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2017	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2017	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2017	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2017	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2017	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2017	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2017	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2017	Unlikely there will be a material impact

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

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 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	TBA	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	TBA	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	TBA	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	TBA	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	TBA	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	TBA	Unlikely there will be a material impact
• GRAP 20: Related parties	TBA	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	TBA	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	TBA	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	TBA	Unlikely there will be a material impact

3. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	36 411 510	(19 726 392)	16 685 118	36 411 510	(19 301 446)	17 110 064
Total	**36 411 510**	**(19 726 392)**	**16 685 118**	**36 411 510**	**(19 301 446)**	**17 110 064**

Reconciliation of investment property - 2017

	Opening balance	**Depreciation**	**Total**
Investment property	17 110 064	(424 946)	16 685 118
	17 110 064	**(424 946)**	**16 685 118**

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**

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

	2017			2016		
	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	24 616 951	(13 296 176)	11 320 775	23 756 056	(12 958 216)	10 797 840
Plant and machinery	5 792 774	(3 693 128)	2 099 646	5 792 774	(3 113 166)	2 679 608
Motor vehicles	3 559 105	(2 742 559)	816 546	3 559 105	(2 386 648)	1 172 457
Office equipment	2 074 993	(1 325 900)	749 093	2 074 992	(1 119 268)	955 724
IT equipment	2 570 133	(1 206 695)	1 363 438	2 301 776	(969 043)	1 332 733
Roads network	241 119 852	(86 066 984)	155 052 868	236 023 956	(79 433 214)	156 590 742
Electricity network	10 922 940	(3 669 692)	7 253 248	10 922 940	(3 206 250)	7 716 690
Work In Progress	106 356 413	-	106 356 413	47 874 008	-	47 874 008
Leased Equipment	1 868 168	(1 774 760)	93 408	1 868 168	(1 587 943)	280 225
Wastewater network	113 376 420	(47 251 088)	66 125 332	113 376 419	(44 932 738)	68 443 681
Water network	230 862 970	(75 876 755)	154 986 215	230 862 970	(70 431 285)	160 431 685
Total	**920 856 450**	**(236 903 737)**	**683 952 713**	**856 148 895**	**(220 137 771)**	**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 - 2017

	Opening balance	Additions	Transfers	Depreciation	Total
Land	177 735 731	-	-	-	177 735 731
Buildings	10 797 840	-	860 895	(337 960)	11 320 775
Plant and machinery	2 679 608	-	-	(579 962)	2 099 646
Motor vehicles	1 172 457	-	-	(355 911)	816 546
Office equipment	955 724	-	-	(206 631)	749 093
IT equipment	1 332 733	268 356	-	(237 651)	1 363 438
Roads network	156 590 742	-	5 095 896	(6 633 770)	155 052 868
Electricity network	7 716 690	-	-	(463 442)	7 253 248
Work In Progress	47 874 008	64 439 196	(5 956 791)	-	106 356 413
Leased Equipment	280 225	-	-	(186 817)	93 408
Wastewater network	68 443 681	-	-	(2 318 349)	66 125 332
Water network	160 431 685	-	-	(5 445 470)	154 986 215
	636 011 124	**64 707 552**	**-**	**(16 765 963)**	**683 952 713**

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**

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:

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 2017

	Included within Infrastructure	Total
Opening balance	47 874 008	47 874 008
Additions/capital expenditure	64 439 196	64 439 196
Transferred to completed items	(5 956 791)	(5 956 791)
	106 356 413	**106 356 413**

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**

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.

5. Heritage assets

	2017			2016		
	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 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	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**

Pledged as security

None of the Heritage assets have been pledged as security

Figures in Rand	2017	2016

6. Other financial assets

Designated at fair value		
VKB Shares	481 456	484 822
	481 456	**484 822**
Non-current assets		
At amortised cost	481 456	484 822
	481 456	**484 822**

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 2017

7. Employee benefit obligations (continued)

Post retirement medical aid plan

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.

7. Employee benefit obligations (continued)

Long Service Award Liability

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	4.0%	(5 / 250 + 2%) x annual salary
10	7.0%	(10 / 250 + 3%) x annual salary
15	10.0%	(15 / 250 + 4%) x annual salary
20	11.0%	(15 / 250 + 5%) x annual salary
25, 30, 35, 40, 45	12.0%	(15 / 250 + 6%) 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 8.41% 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 8.41% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.55%. 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 2017.

The liability-weighted average term of the total liability is 6.76 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 5.23% was obtained from the differential between market yields on index-linked bonds (2.55%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.41%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.41%-0.50%)/(1+2.55%))-1.

Thus, a general salary inflation rate of 6.23% 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 2.05%.

It has been assumed that the next salary increase will take place on 1 July 2018.

Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 6.23% per annum for all employees.

Figures in Rand	2017	2016

7. Employee benefit obligations (continued)

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

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

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

Carrying value		
Present value of the defined benefit obligation - Post employment benefit plan	(1 965 666)	(2 156 859)
Present value of the defined benefit obligation - Long service awards	(3 189 729)	(3 082 762)
	(5 155 395)	**(5 239 621)**

Non-current liabilities	(4 496 436)	(4 510 219)
Current liabilities	(658 959)	(729 402)
	(5 155 395)	**(5 239 621)**

The present value of plan assets includes:

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

Opening balance	(5 239 621)	(5 575 302)
Actuarial gains / (losses)	223 926	473 916
Net expense recognised in the statement of financial performance	(139 700)	(138 235)
	(5 155 395)	**(5 239 621)**

Net expense recognised in the statement of financial performance

Current service cost	(380 010)	(449 000)
Interest cost	(416 549)	(481 407)
Actual benefits vested	656 859	792 172
	(139 700)	**(138 235)**

Calculation of actuarial gains and losses

Actuarial gains / (losses) – Long service awards	125 653	498 238
Actuarial gains / (losses) – Post employment benefit plan	98 273	(24 322)
	223 926	**473 916**

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2017	2016
Discount rates used	8.38 %	8.59 %
Health care cost inflation rate	6.68 %	7.79 %
Net discount rate - health care cost inflation	1.59 %	0.74 %
Net discount rate - maximum subsidy inflation	3.58 %	2.96 %

Sensitivity Analysis on the Accrued Liability:

ASSUMPTION	CHANGE	TOTAL	% CHANGE
Central Assumptions		1.966	
Health care inflation	+1%	2.021	+3%
	-1%	1.912	-3%
Discount Rate	+1%	1.862	-5%
	-1%	2.081	+6%
Post-retirement mortality	-1 yr	2.068	+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	(2 156 859)	(2 222 302)
-Current-service Cost	-	-
-Interest Cost	(174 044)	(173 407)
-Contributions (benefits paid)	266 964	263 172
Total Annual Expense	**92 920**	**89 765**
-Actuarial (Loss) / Gain	98 273	(24 322)
Closing Accrued Liability	**(1 965 666)**	**(2 156 859)**

LSA Liability Reconciliation:

Opening Accrued Liability	(3 082 762)	(3 353 000)
-Current-service Cost	(380 010)	(449 000)
-Interest Cost	(242 505)	(308 000)
-Contributions (benefits paid)	389 895	529 000
Total Annual Expense	**(232 620)**	**(228 000)**
-Actuarial (Loss) / Gain	125 653	498 238
Closing Accrued Liability	**(3 189 729)**	**(3 082 762)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

8. Inventories

Consumable stores	528 671	1 046 329
Water	47 586	45 368
	576 257	**1 091 697**

Carrying value of inventories carried at fair value less costs to sell	576 257	1 091 697

9. Receivables from exchange transactions

Trade debtors	303 553	906 075
Consumer debtors - Electricity	(3 171)	776 587
Consumer debtors - Water	2 170 649	3 669 606
Consumer debtors - Sewerage	1 636 629	3 362 076
Consumer debtors - Refuse	872 825	2 159 939
Consumer debtors - Sale of Stands	1 163	-
Consumer debtors - Housing Rental	6 422	351 618
Consumer debtors - Other	10 542	-
	4 998 612	**11 225 901**

There are no Receivables from exchange transactions pleged as security for overdraft facilities.

Please refer to note 12 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)		
Baa3	4 998 612	11 225 901
	4 998 612	**11 225 901**

Fair value of trade and other receivables

Trade and other receivables	4 998 612	11 225 901

Trade and other receivables impaired

As of 30 June 2017, trade and other receivables of R - (2016: R -) were impaired and provided for.

The amount of the provision was R - as of 30 June 2017 (2016: R (132 113 284)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(246 383)	(246 383)

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

10. Receivables from non-exchange transactions

Fines	39 992	7 288
Consumer debtors - Rates	567 244	1 874 709
	607 236	**1 881 997**

Receivables from non-exchange transactions pledged as security

There are no Receivables from non-exchange transactions pleged as security for overdraft facilities.

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)		
Baa3	607 236	1 881 997
	607 236	**1 881 997**

Please refer to note 12 for detailed disclosure of the ageing and nett consumer disclosure.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	607 236	1 881 997

Receivables from non-exchange transactions impaired

As of 30 June 2017, other receivables from non-exchange transactions were impaired and provided for.

The amount of the provision was R 103 166 as of 30 June 2017 (2016: R 66 545).

Details of the impairment:

Traffic fines impairment	103 166	66 545

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

Opening balance	146 323	79 778
Provision for impairment	103 166	66 545
	249 489	**146 323**

11. VAT receivable

VAT	7 846 359	-
	7 846 359	**-**

Figures in Rand	2017	2016

12. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	24 774 006	20 484 842
Consumer debtors - Electricity	4 767 692	4 371 072
Consumer debtors - Water	51 511 357	41 541 400
Consumer debtors - Sewerage	53 219 731	45 856 984
Consumer debtors - Refuse	54 206 413	47 088 009
Consumer debtors - Sale of stands	61 246	115 755
Consumer debtors - Rent	1 944 077	2 508 705
Consumer debtors - Other	180 052	951 185
	190 664 574	**162 917 952**

Less: Allowance for impairment		
Consumer debtors - Rates	(24 206 762)	(18 610 133)
Consumer debtors - Electricity	(4 770 863)	(3 594 485)
Consumer debtors - Water	(49 340 708)	(37 871 794)
Consumer debtors - Sewerage	(51 583 102)	(42 494 908)
Consumer debtors - Refuse	(53 333 588)	(44 928 070)
Consumer debtors - Sale of stands	(60 083)	(115 755)
Consumer debtors - Rent	(1 937 655)	(2 157 087)
Consumer debtors - Other	(169 510)	(951 185)
	(185 402 271)	**(150 723 417)**

Net balance		
Consumer debtors - Rates	567 244	1 874 709
Consumer debtors - Electricity	(3 171)	776 587
Consumer debtors - Water	2 170 649	3 669 606
Consumer debtors - Sewerage	1 636 629	3 362 076
Consumer debtors - Refuse	872 825	2 159 939
Sale of stands	1 163	-
Housing rental	6 422	351 618
Other	10 542	-
	5 262 303	**12 194 535**

Included in above is receivables from exchange transactions		
Electricity	(3 171)	776 587
Water	2 170 649	3 669 606
Sewerage	1 636 629	3 362 076
Refuse	872 825	2 159 939
Other	10 542	-
Regional services levies	1 163	-
Housing rental	6 422	351 618
	4 695 059	**10 319 826**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	567 244	1 874 709
	567 244	**1 874 709**

Net balance	**5 262 303**	**12 194 535**

Figures in Rand	2017	2016

12. Consumer debtors disclosure (continued)

Rates		
Current (0 -30 days)	427 238	(186 841)
31 - 60 days	305 803	402 665
61 - 90 days	395 924	249 244
91 - 120 days	20 114 606	17 023 441
121 - 365 days	3 530 435	2 996 333
> 365 days	(24 206 762)	(18 610 133)
	567 244	**1 874 709**

Electricity		
Current (0 -30 days)	314 163	(19 543)
31 - 60 days	75 397	365 729
61 - 90 days	46 035	80 181
91 - 120 days	3 426 101	3 168 598
121 - 365 days	905 996	776 107
> 365 days	(4 770 863)	(3 594 485)
	(3 171)	**776 587**

Water		
Current (0 -30 days)	1 019 716	15 799
31 - 60 days	648 544	966 589
61 - 90 days	729 903	542 753
91 - 120 days	39 262 722	32 105 974
121 - 365 days	9 850 472	7 910 285
> 365 days	(49 340 708)	(37 871 794)
	2 170 649	**3 669 606**

Sewerage		
Current (0 -30 days)	729 629	79 060
31 - 60 days	553 475	604 124
61 - 90 days	559 164	490 506
91 - 120 days	40 246 370	35 758 212
121 - 365 days	11 131 093	8 925 082
> 365 days	(51 583 102)	(42 494 908)
	1 636 629	**3 362 076**

Refuse		
Current (0 -30 days)	661 946	33 054
31 - 60 days	524 545	560 427
61 - 90 days	528 636	458 643
91 - 120 days	40 551 409	36 423 176
121 - 365 days	11 939 877	9 612 709
> 365 days	(53 333 588)	(44 928 070)
	872 825	**2 159 939**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

12. Consumer debtors disclosure (continued)

Sale of stands

121 - 365 days	61 246	-
> 365 days	(60 083)	-
	1 163	**-**

Housing rental

Current (0 -30 days)	17 519	1 175
31 - 60 days	17 178	20 969
61 - 90 days	500 293	15 983
91 - 120 days	1 262 136	2 334 922
121 - 365 days	146 951	135 656
> 365 days	(1 937 655)	(2 157 087)
	6 422	**351 618**

Other

Current (0 -30 days)	16 764	(1 175)
31 - 60 days	3 178	20 969
61 - 90 days	4 256	15 983
91 - 120 days	148 958	915 408
121 - 365 days	6 896	-
> 365 days	(169 510)	(951 185)
	10 542	**-**

Reconciliation of allowance for impairment

Balance at beginning of the year	(150 723 417)	(127 521 155)
Contributions to allowance	(34 678 854)	(23 202 262)
	(185 402 271)	**(150 723 417)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38 800	38 800
Bank balances	1 143 293	432 192
	1 182 093	**470 992**

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		
Baa3	1 143 293	432 192
	1 143 293	**432 192**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2017	**30 June 2016**	**30 June 2015**	**30 June 2017**	**30 June 2016**	**30 June 2015**
ABSA Bank - Current Account	988 914	399 373	348 459	989 759	399 373	348 459
ABSA - Grants Call Account	52 089	4 877	45 244	52 089	4 877	45 244
ABSA Bank - Call Account	12 587	4 354	9 453	12 587	4 354	9 453
First National Bank - 7 Day	4 481	4 481	4 481	4 481	4 481	4 481
First National Bank - Interest Plus	84 378	19 107	117 394	84 378	19 107	117 394
Total	**1 142 449**	**432 192**	**525 031**	**1 143 294**	**432 192**	**525 031**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

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	1 752 431	-
Additions during the year	-	95 887 368
Income recognition during the year	-	(94 134 937)
Unspent INEP portion deducted from Equitable share in 2017	(1 752 431)	-
	-	**1 752 431**

See note 26 for reconciliation of grants from National/Provincial Government.

15. Other financial liabilities

Designated at fair value		
DBSA Loan - 11193	497 766	646 698
20 year loan, interest rate 17%, redemption date 30 September 2019		
DBSA Loan - 10349	-	64 149
20 year loan, interest rate 12%, redemption date 31 March 2017		
ABSA term loan	301 286	1 133 237
5 year loan, interest rate 10.60%, final payment 31 October 2017		
	799 052	**1 844 084**

Non-current liabilities		
At amortised cost	326 009	799 051
	326 009	**799 051**

Current liabilities		
At amortised cost	473 043	1 045 033
	473 043	**1 045 033**

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	57 492 279	17 377 855	74 870 134
	57 492 279	**17 377 855**	**74 870 134**

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**

	2017	2016
Non-current liabilities	66 050 499	57 492 279
Current liabilities	8 819 635	-
	74 870 134	**57 492 279**

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 and Sanitation “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 5.6372%.

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.

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	2016-2017
CPI	5.6372%
Discount rate	8.6372%
Net effective discount rate	3%

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

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 Passive 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 Passive 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 1 year. 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 1 year. 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	2017	2016

17. Payables from exchange transactions

13th cheque accrual	1 603 178	1 490 744
Accrued salary expense	50 295	30 287
Accrued leave pay	4 443 874	3 649 714
Deposits received	62 100	59 950
Debtors in credit	1 236 542	1 511 567
Retentions	12 373 493	4 127 005
Trade payables	159 471 522	109 266 612
Unallocated receipts and deposits	8 155 051	7 463 158
	187 396 055	**127 599 037**

Fair value of trade and other payables

Trade payables	201 465 382	127 599 037
	201 465 382	**127 599 037**

18. VAT payable

Tax payables	-	3 206 148
	-	**3 206 148**

19. Consumer deposits

Rates	238 982	240 269
	238 982	**240 269**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

20. Revenue

Service charges	30 855 009	29 550 541
Rental of facilities	391 518	949 587
Other income	441 264	508 343
Interest received	9 493 999	9 900 076
Property rates	11 870 853	11 897 376
Government grants & subsidies	127 415 501	96 692 261
Public contributions and donations	4 470 006	2 066 385
Fines	239 380	146 350
	185 177 530	**151 710 919**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	30 855 009	29 550 541
Rental of facilities and equipment	391 518	949 587
Other income	441 264	508 343
Interest received	9 493 999	9 900 076
	41 181 790	**40 908 547**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11 870 853	11 897 376
Transfer revenue		
Government grants & subsidies	127 415 501	96 692 261
Public contributions and donations	4 470 006	2 066 385
Fines	239 380	146 350
	143 995 740	**110 802 372**

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.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

21. Service charges

Sale of electricity	7 764 643	7 808 842
Sale of water	9 275 763	7 948 074
Sewerage and sanitation charges	7 152 148	7 098 785
Refuse removal	6 662 455	6 694 840
	30 855 009	**29 550 541**

22. Rental of facilities and equipment

Premises		
Own Premises	391 518	949 587
	391 518	**949 587**

23. Other income

Building Fees	24 574	35 514
Cemetery Fees	139 103	172 410
Collecting Fees	83 266	73 685
Connection Fees	27 951	45 097
Sale of stands	3 760	47 614
Tender deposits	95 900	65 300
Sundry income	38 716	43 721
Clearance certificate	27 994	25 002
	441 264	**508 343**

24. Investment revenue

Interest revenue		
Bank	221 832	298 945
Interest charged on trade and other receivables	9 272 167	9 601 131
	9 493 999	**9 900 076**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

25. Property rates

Rates received

Property rates	11 870 853	11 897 376
	11 870 853	**11 897 376**

Valuations

Residential	1 228 974 354	1 478 750 451
Commercial	149 513 820	151 374 986
State	73 100 494	84 629 113
Municipal	5 633 000	6 138 424
Small holdings and farms	6 194 281 806	5 924 829 077
Institutional and Other	115 529 000	113 712 249
	7 767 032 474	**7 759 434 300**

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.

Figures in Rand	2017	2016

26. Government grants and subsidies

Operating grants		
Equitable share	59 830 431	60 462 000
Financial Management Grant	2 010 000	1 875 000
Municipal Systems Improvement Grant	-	930 000
Expanded Public Works Programme Grant	1 000 000	1 000 000
LG Seta Grant	94 335	304 401
	62 934 766	**64 571 401**
Capital grants		
Municipal Infrastructure Grant	20 090 000	20 467 000
Integrated National Electrification Grant	-	5 847 569
Dept of Water & Sanitation (RBIG & ACIP)	44 390 735	5 378 531
Draught Relief Grant	-	427 760
	64 480 735	**32 120 860**
	127 415 501	**96 692 261**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	67 585 070	35 925 860
Unconditional grants received	59 830 431	60 766 401
	127 415 501	**96 692 261**

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.

Unspent INEP portion deducted from Equitable share in 2017

Municipal Systems Improvement Grant

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

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	44 390 735	5 378 531
Conditions met - transferred to revenue	(44 390 735)	(5 378 531)
	-	**-**

Acceleration of the bucket eradication programmes in municipalities.

Figures in Rand	2017	2016

26. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Current-year receipts	20 090 000	20 467 000
Conditions met - transferred to revenue	(20 090 000)	(20 467 000)
	-	-

Expanded Public Works Programme Grant

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

Integrated National Electrification Grant

Balance unspent at beginning of year	1 752 431	-
Current-year receipts	-	7 600 000
Conditions met - transferred to revenue	-	(5 847 569)
Unspent INEP portion deducted from Equitable share in 2017	(1 752 431)	-
	-	**1 752 431**

Financial Management Grant

Current-year receipts	2 010 000	1 875 000
Conditions met - transferred to revenue	(2 010 000)	(1 875 000)
	-	-

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)
	-	-

27. Public contributions and donations

Provincial Treasury contributions	2 000 000	1 850 000
Social Investment Contribution	2 470 006	216 385
	4 470 006	**2 066 385**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

28. Employee related costs

	2017	2016
13th Cheques	2 709 921	2 556 207
Acting allowances	829 543	689 497
Basic	32 677 237	31 307 350
Car allowance	1 424 356	1 361 254
Employee benefit obligation	(84 226)	(335 681)
Other payroll levies	32 037	89 604
Housing benefits and allowances	664 474	683 578
Leave pay provision charge	1 183 440	664 367
Long-service awards	207 682	227 557
Medical aid - employer contributions	1 890 929	1 629 620
Occupational allowance	354 632	282 670
Other payroll levies	5 623 880	5 276 248
Overtime payments	3 916 559	3 555 847
SDL	424 432	412 734
Standby Allowance	320 041	353 648
UIF	375 383	353 957
	52 550 320	**49 108 457**

Remuneration of Municipal Manager - BW Kannemeyer

	2017	2016
Annual Remuneration	570 285	893 568
Car Allowance	381 024	598 200
Contributions to UIF, Medical and Pension Funds	10 002	15 593
	961 311	**1 507 361**

Mr BW Kannemeyer has resigned on 22 February 2017

Remuneration of Chief Financial Officer - SA Nyapholi

	2017	2016
Annual Remuneration	667 792	642 386
Car Allowance	196 560	189 000
Contributions to UIF, Medical and Pension Funds	126 215	121 086
	990 567	**952 472**

Remuneration of Director Corporate Services - NF Malatjie

	2017	2016
Annual Remuneration	751 032	561 824
Car Allowance	361 179	363 038
Contributions to UIF, Medical and Pension Funds	129 006	120 534
	1 241 217	**1 045 396**

NF Malatjie - Appointed as acting Accounting Officer effectively 1 March 2017. Council have appointed NF Malatjie as Accounting Officer effectiive 1 August 2017.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

29. Remuneration of councillors

Mayor	825 290	797 826
Speaker	629 210	611 447
Councillors	3 496 540	3 003 922
Ward Commitees	331 088	478 000
	5 282 128	**4 891 195**

Councillors remuneration

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

30. Depreciation and amortisation

Property, plant and equipment	16 765 965	16 866 777
Investment property	424 946	425 038
	17 190 911	**17 291 815**

31. Impairment of assets

Impairments		
Property, plant and equipment	-	1 862 327
Other receivables from non-exchange revenue	103 166	66 545
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.		
	103 166	**1 928 872**
Total impairment losses (recognised) reversed	**103 166**	**1 928 872**

32. Finance costs

DBSA loan	112 470	134 468
Trade and other payables	12 681 337	5 957 803
ABSA term loan	96 058	184 830
Interest Cost - Landfill site provision	17 377 855	8 019 629
	30 267 720	**14 296 730**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

33. Debt impairment

Contributions to debt impairment provision	35 451 633	23 299 751
Bad debts written off	676 013	-
	36 127 646	**23 299 751**

Bad debts written off during the 2017 financial year as per council resolution R 676,013

34. Bulk purchases

Electricity	23 940 126	20 336 349
Water	6 602 940	4 404 472
	30 543 066	**24 740 821**

35. Contracted services

Specialist Services	4 891 201	3 385 879
Other Contractors	3 070 767	3 900 322
	7 961 968	**7 286 201**

36. General expenses

Advertising	207 822	118 291
Auditors remuneration	2 798 532	6 230 423
Bank charges	400 081	309 070
Chemicals	1 510 804	1 436 136
Community development and training	1 182 378	854 312
Conferences and seminars	247 509	148 412
Consumables	217 629	307 926
Entertainment	54 817	73 524
Fuel and oil	1 073 238	976 211
Insurance	424 827	328 542
Magazines, books and periodicals	9 820	-
Medical expenses	4 096	388
Motor vehicle expenses	35 403	-
Operational grant expenditure	2 385 185	3 509 100
Other expenses	48 327	20 835
Postage and courier	147 802	669 808
Printing and stationery	665 187	764 307
Protective clothing	211 599	456 664
Refuse	454 703	336 059
Rental of equipment	1 238 369	1 541 589
Royalties and license fees	2 744	-
Social investment expenditure	192 185	14 144
Subscriptions and membership fees	(19 646)	1 181 674
Telephone and fax	2 120 299	1 891 257
Training	483 761	377 536
Travel - local	2 625 517	2 755 571
Vehicle licensing	216 966	91 131
	18 939 954	**24 392 910**

Figures in Rand	2017	2016

37. Auditors' remuneration

Fees	2 798 532	6 230 423
	2 798 532	**6 230 423**

38. Operating deficit

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

Operating lease charges		
Motor vehicles		
• Contractual amounts	257 155	895 082
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
Impairment of other receivables from non-exchange transactions	103 166	66 545
Depreciation on property, plant and equipment	16 765 965	16 866 777
Depreciation on investment property	424 946	425 038
Employee costs	61 025 543	57 504 881

39. Cash generated from operations

Deficit	(23 032 506)	(27 477 329)
Adjustments for:		
Depreciation	17 190 911	17 291 815
Gain on sale of assets and liabilities	-	107 441
Impairment deficit	103 166	1 928 872
Debt impairment	35 451 633	23 299 751
Bad debts written off	676 013	-
Movements in retirement benefit assets and liabilities	(84 226)	(335 681)
Movements in provisions	17 377 855	8 019 629
Impiarment non cash	(103 166)	(117 197)
Changes in working capital:		
Inventories	515 440	1 133 279
Receivables from exchange transactions	6 227 289	(1 621 584)
Consumer debtors	(35 451 633)	(23 299 751)
Other receivables from non-exchange transactions	1 274 761	(1 006 361)
Payables from exchange transactions	59 121 007	26 837 312
VAT	(11 052 507)	964 146
Unspent conditional grants and receipts	(1 752 431)	1 752 431
Consumer deposits	(1 287)	(1 452)
	66 460 319	**27 475 321**

40. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	481 456	481 456
Trade and other receivables from exchange transactions	-	4 998 612	4 998 612
Other receivables from non-exchange transactions	-	607 236	607 236
Cash and cash equivalents	1 182 093	-	1 182 093
	1 182 093	**6 087 304**	**7 269 397**

Financial liabilities

	At amortised cost	Total
Consumer deposits	238 982	238 982
Other financial liabilities	473 043	473 043
Trade and other payables from exchange transactions	201 185 689	201 185 689
	201 897 714	**201 897 714**

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	1 045 033	1 045 033
Trade and other payables from exchange transactions	127 599 037	127 599 037
Unspent conditional grants and receipts	1 752 431	1 752 431
	130 636 770	**130 636 770**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	51 489 584	5 255 679
	51 489 584	**5 255 679**

Total capital commitments		
Already contracted for but not provided for	51 489 584	5 255 679
	51 489 584	**5 255 679**

Total commitments

Total commitments		
Authorised capital expenditure	51 489 584	5 255 679
	51 489 584	**5 255 679**

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.

42. Contingencies

The following case have been reported but not yet confirmed.

Wessels and 3 Others // Phemelela - Damages arising from fire as landfill site.

Please be advised that matter per our instruction was defended on behalf of the Defendant in the above matter in the High Court, Bloemfontein, on Thursday, **11th February 2016**, and that the Court eventually made the following order as submitted by our defense:

(a)The matter is removed from the roll.

(b)Defendant is ordered to pay the costs of the application (for the striking out of the defence, etc.).

Recently the matter was enrolled by the applicant despite the December court order on the basis that the applicant still feel that there is a non compliance irrespective of our previous undertaking.This is a matter of argument we have to put before the court on the return date.We had per your latest instructions appeared before the judge on Rule 37(8) and the matter has been enrolled for three days full argument early next year. We will ventilate it fully in this allocated dates to show that the application is vexatious and flivorous.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

43. Related parties

There were no transactions with related parties in the year.

Key management information

	2017	2016
Mayor Remuneration : T J MOTAUNG		
Annual Remuneration	568 509.00	552 734.16
Car Allowance	189 503.04	184 244.76
Cell phone Allowance	22 800.00	21 864.00
Contributions to Medical and Pension Funds	7 505.34	7 008.91
Other	38 048.70	19 656.50
Total remuneration	**826 366.08**	**785 508.33**

Speaker Remuneration : T R ZWANE		
Annual Remuneration	454 807.56	442 187.28
Car Allowance	151 602.48	147 395.64
Cell phone Allowance	22 800.00	21 864.00
Contributions to Medical and Pension Funds	5 874.86	5 710.36
Other		-
Total remuneration	**635 084.90**	**617 157.28**

COUNCILLORS

Remuneration of Councillor: S E TSHABALALA		
Annual Remuneration	215 291.10	166 576.44
Car Allowance	71 764.11	55 525.56
Cell phone Allowance	22 809.06	29 340.00
Contributions to Medical and Pension Funds	2 841.08	2 256.67
Other	-	-
Total remuneration	**312 705.35**	**253 698.67**

Remuneration of Councillor: S J M MOFOKENG		
Annual Remuneration	178 214.46	166 576.44
Car Allowance	59 405.04	55 525.56
Cell phone Allowance	22 800.00	29 340.00
Contributions to Medical and Pension Funds	2 371.37	2 264.09
Other	-	1 485.18
Total remuneration	**262 790.87**	**255 191.27**

Remuneration of Councillor: M D NKABINDE		
Annual Remuneration	-	43 964.91
Car Allowance	-	14 655.09
Cell phone Allowance	-	13 689.00
Contributions to Medical and Pension Funds	-	625.33
Other	-	-
Total remuneration	**-**	**72 934.33**

Figures in Rand	2017	2016

43. Related parties (continued)

Remuneration of Councillor: O A MOKOENA		
Annual Remuneration	178 215.00	166 576.44
Car Allowance	59 405.04	55 525.56
Cell phone Allowance	22 800.00	29 340.00
Contributions to Medical and Pension Funds	2 371.38	2 256.67
Other	-	-
Total remuneration	**262 791.42**	**253 698.67**

Remuneration of Councillor: J M NGWENYA-SITHEBE		
Annual Remuneration	19 128.41	166 576.44
Car Allowance	6 376.14	55 525.56
Cell phone Allowance	2 447.20	29 340.00
Contributions to Medical and Pension Funds	254.52	2 263.62
Other	-	1 391
Total remuneration	**28 206.27**	**255 096.62**

Remuneration of Councillor: M D KOBENI		
Annual Remuneration	25 290.50	229 044.00
Car Allowance	8 430.19	76 347.96
Cell phone Allowance	2 447.20	29 340.00
Contributions to Medical and Pension Funds	332.58	3 125.98
Other	-	15 612.72
Total remuneration	**36 500.47**	**353 470.66**

Remuneration of Councillor: D A WESSELS		
Annual Remuneration	235 626.00	323 465.91
Car Allowance	78 542.04	107 822.05
Cell phone Allowance	22 800.00	49 985.00
Contributions to Medical and Pension Funds	3 098.64	4 384.41
Other	-	7 446
Total remuneration	**340 066.68**	**493 103.37**

Remuneration of Councillor: A D RADEBE		
Annual Remuneration	19 128.41	166 576.44
Car Allowance	6 376.14	55 525.56
Cell phone Allowance	2 447.20	29 340.00
Contributions to Medical and Pension Funds	254.52	2 256.67
COther	-	-
Total remuneration	**28 206.27**	**253 698.67**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

43. Related parties (continued)

Remuneration of Councillor: T E RADEBE		
Annual Remuneration	19 128.41	166 576.44
Car Allowance	6 376.14	55 525.56
Cell phone Allowance	2 447.20	29 340.00
Contributions to Medical and Pension Funds	254.52	2 256.72
Other	-	610.00
Total remuneration	**28 206.27**	**254 308.72**
Remuneration of Councillor: L M MSIMANGA		
Annual Remuneration	19 128.41	166 576.44
Car Allowance	6 376.24	55 526.06
Cell phone Allowance	2 447.20	29 340.00
Contributions to Medical and Pension Funds	254.52	2 256.67
Other	-	-
Total remuneration	**28 206.37**	**253 699.17**
Remuneration of Councillor: T N MASITENG		
Annual Remuneration	19 128.41	166 576.44
Car Allowance	6 376.14	55 525.56
Cell phone Allowance	2 447.20	29 340.00
Contributions to Medical and Pension Funds	254.52	2 313.60
Other	-	11 385.72
Total remuneration	**28 206.27**	**265 141.32**
Remuneration of Councillor: K A SIBEKO		
Annual Remuneration	195 417.48	-
Car Allowance	65 139.28	-
Cell phone Allowance	22 915.46	-
Contributions to Medical and Pension Funds	1 953.95	-
Other	-	-
Total remuneration	**285 426.17**	**-**
Remuneration of Councillor: M M MASHININI		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	-	-
Total remuneration	**235 496.69**	**-**
Remuneration of Councillor: N J MOKOENA		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	-	-
Total remuneration	**235 496.69**	**-**
Remuneration of Councillor: M B MHLAMBI		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	514.80	-
Total remuneration	**236 011.49**	**-**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2017	2016

43. Related parties (continued)

Remuneration of Councillor: B V KHUMALO		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	1 745.66	-
Total remuneration	**237 242.35**	**-**

Remuneration of Councillor: M S NTSELE		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	4 264.00	-
Total remuneration	**239 760.69**	**-**

Remuneration of Councillor: V P KIBIDO		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	1 252.56	-
Total remuneration	**236 749.25**	**-**

Remuneration of Councillor: B MTHOMBENI		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	-	-
Total remuneration	**235 496.69**	**-**

Remuneration of Councillor: T M TSHABALA		
Annual Remuneration	159 918.26	-
Car Allowance	53 306.12	-
Cell phone Allowance	20 459.20	-
Contributions to Medical and Pension Funds	1 813.11	-
Other	-	-
Total remuneration	**235 496.69**	**-**

Figures in Rand	2017	2016

44. Prior period errors

The following errors have occurred during the financial year:

Statement of Financial Position:
1. Inventory - Correction of stock on hand
2. Payables from exchange transactions - Correction of incorrect transactions

Statement of financial position

Statement of financial position	
Inventory	228 058
Payables from exchange transactions	338 652
Accumulated surplus	(566 710)

45. 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 2017 and 2016 respectively were as follows:

Less: Cash and cash equivalents	-1,182,093	-470,992
Net debt	-283,066,790	-197,712,521
Total equity	447,603,151	470,569,837
Total capital	-164,536,361	-272,857,316
Gearing ratio	0.63%	0.41%

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

45. Risk management (continued)

As at 30 June 2017	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Payables from exchange transactions	127,937,689	-	-	-
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	202,003,227	-	-	-
Finance lease obligation	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	989,759	-	-	-	-
Call investment deposits	1.10%	69,157	-	-	-	-
Other financial assets	5.00%	481,456	-	-	-	-

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

45. 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	**2017**	**2016**
Investments	-	-
Receivables from non-exchange transactions	631,111	1,881,997
Receivables from exchange transactions	5,023,395	11,225,901
Bank balances and cash	1,182,093	470,992

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.

46. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 447 875 987 and that the municipality's total liabilities exceed its assets by R 447 875 987.

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

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

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.

47. Events after the reporting date

The accounting officer is aware of matters or circumstances arising since the end of the financial year that require additional disclosure in the financial statements.

A special council meeting was held on 31 July 2017 where council resolution item 01/07/2017 was taken to appoint Mrs NF Malatjie as Accounting Officer effective 1 August 2017. Mr SM Mahlangu was appointed as acting Director Corporate Services effective 1 August 2017.

48. Unauthorised expenditure

Opening balance	375 453 473	279 732 564
Movement	93 565 456	95 720 909
	469 018 929	**375 453 473**

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

No expenditure was recovered or written off during the year.

49. Fruitless and wasteful expenditure

Opening balance	12 370 805	6 354 692
Movement	610 446	6 016 113
	12 981 251	**12 370 805**

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

Eskom interest	273 281.22
Human le Roux Meyerowitz	8 361.73
Telkom	82 562.44
Pretorius & Bosman	13 980.84
SARS	15 908.36
Work in Progress - Water Skills PTY	216 351.39

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.

50. Irregular expenditure

Opening balance	145 564 583	135 624 988
Add: Supply Chain Deviations - current year	-	383 035
Add: Other Irregular Expenditure - current year	11 964 432	9 556 560
	157 529 015	**145 564 583**

Analysis of expenditure awaiting condonation per age classification

Current year	11 964 432	9 939 595
Prior years	145 564 583	135 624 988
	157 529 015	**145 564 583**

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	9 416	-
Current year subscription / fee	594 565	673 110
Amount paid - current year	(538 314)	(663 694)
	65 667	**9 416**

Material losses

Water Distribution loss	4 550 768	3 147 562
Electricity Distribution loss	13 976 193	8 735 352
	18 526 961	**11 882 914**

Fraud disclosure

In June 2017 , management discovered that consumers in Memel were complaining that their accounts are not credited with amounts as per their receipts .

Management then investigated the matter and discovered that one of the employees is involved and she admitted that she took the money for her personal use.

The matter was reported to SAPS and the employee was suspended .

The matter is still under investigation and currently it is known how much was taken by the employee as we rely on consumers when they come forward and complain about their accounts.

The matter was also reported to council.

Audit fees

Opening balance	3 301 372	152 269
Current year subscription / fee	2 798 532	6 230 423
Amount paid - current year	(2 000 000)	(3 081 320)
Amount paid - Donation from Treasury	(2 405 000)	-
	1 694 904	**3 301 372**

PAYE and UIF

Opening balance	1 063 100	-
Current year subscription / fee	6 760 577	6 367 924
Amount paid - current year	(6 760 577)	(5 304 824)
	1 063 100	**1 063 100**

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

Pension and Medical Aid Deductions

Opening balance	1 808 336	-
Current year subscription / fee	11 289 228	10 345 035
Amount paid - current year	(11 289 228)	(8 536 699)
	1 808 336	**1 808 336**

VAT

VAT receivable	7 846 359	-
VAT payable	-	3 206 148
	7 846 359	**3 206 148**

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

Notes to the Unaudited Annual Financial Statements

Figures in Rand

51. 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 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	508	-	508
VP Kibido	683	16 731	17 414
MM Mashinini	93	-	93
KA Sibeko	-	2 724	2 724
	1 284	**19 455**	**20 739**

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 2017	Highest outstanding amount	Aging (in days)
KA Sibeko	2 310	180
VP Kibido	15 767	180
MM Mashinini	93	30
TJ Motaung	508	30
	18 678	**60**

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	**-**

51. 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		
Hiring of movable pump in Warden-Miya Technologies and project (pty)ltd	15 600	-
Repairs to Warden sewer tank,steel pipe,sewer line-Phumelela Fire and Rescue services	14 306	-
AFS Preparation and Audit Assistance - PKF West Rand	2 400 000	-
Hiring of movable pump in Warden- Q and H Water and Sewer Services pvt(ltd)	16 382	-
Sewer pump repair at warden and vrede-Miya Technologies and Project (pvt)ltd	181 688	-
Fix blowing roof- Mandla Mkwananzi	24 800	-
Repair of sewer pump: Vrede pumpstation - BLUE SEAL ENGINEERING CC	-	17 089
Repair of sewer pump: Vrede pumpstation - Miya Technologies and project (pty)ltd	42 426	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	38 393	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
	2 733 595	**972 319**

52. Utilisation of Long-term liabilities reconciliation

Long-term liabilities	799 052	1 844 084

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.

53. Budget differences

Changes from the approved budget to the final budget

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

Appendix A
June 2017

Schedule of external loans as at 30 June 2017

	Loan Number	Redeemable	Opening Balance at Thursday, 1 July 2016 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2017 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
External Loans								
Loans @17%	11193	2019-09-30	646 698	-	148 932	497 766	-	-
Loans @12%	10349	2017-03-31	64 149	-	64 149	-	-	-
Loans @12,6%	3036850050	2017-10-31	1 133 237	-	831 951	301 286	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			1 844 084	**-**	**1 045 032**	**799 052**	**-**	**-**
Total external loans								
External Loans			1 844 084	-	1 045 032	799 052	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			-	-	-	-	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			1 844 084	**-**	**1 045 032**	**799 052**	**-**	**-**

Phumelela Local Municipality

Unaudited - Appendix B
June 2017

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
Landfill Sites (Separate for AFS pursoses)	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
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
Storm water	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Electricity	10 922 940	-	-	-	-	**-**	**10 922 940**	(2 742 808)	-	-	(463 442)	-	**(3 206 250)**	7 716 690
Transmission & Reticulation	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Street lighting	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Dams & Reservoirs	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Water purification	227 851 944	10 021 820	-	-	-	**-**	**237 873 764**	(65 391 020)	-	-	(5 428 835)	-	**(70 819 855)**	167 053 909
Reticulation	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Reticulation	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Waste water	104 018 821	9 357 598	-	-	-	**-**	**113 376 419**	(42 664 124)	-	-	(2 268 614)	-	**(44 932 738)**	68 443 681
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Housing	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Waste Management	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Gas	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other (fibre optic, WIFI infrastructur)	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other 1	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
	578 817 661	**19 379 418**	**-**	**-**	**-**	**-**	**598 197 079**	**(183 597 395)**	**-**	**-**	**(14 794 662)**	**-**	**(198 392 057)**	**399 805 022**
Community Assets														
Parks & gardens	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Sportsfields and stadium	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Swimming pools	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Community halls	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Libraries	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Recreational facilities	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Clinics	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Museums & art galleries	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Other	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Social rental housing	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Cemeteries	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Fire, safety & emergency	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Security and policing	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
Buses	-	-	-	-	-	**-**	**-**	-	-	-	-	-	**-**	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Phumelela Local Municipality

Unaudited - Appendix B

June 2017

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														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	5 761	-	-	-	-	-	**5 761**	-	-	-	-	-	-	5 761
	5 761	**-**	**-**	**-**	**-**	**-**	**5 761**	**-**	**-**	**-**	**-**	**-**	**-**	**5 761**
Specialised vehicles														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other assets														
General vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	50 904 434	25 968 817	(28 999 243)	-	-	-	**47 874 008**	-	-	-	-	-	-	47 874 008
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	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**

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
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	5 761	-	-	-	-	-	**5 761**	-	-	-	-	-	-	5 761
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
	845 573 545	**55 371 962**	**(29 147 530)**	**-**	**(8 641 200)**	**-**	**863 156 777**	**(210 512 608)**	**66 176**	**-**	**(16 850 106)**	**6 778 872**	**(220 517 666)**	**642 639 111**
Agricultural/Biological assets														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Intangible assets														
Computers - software & programming	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment properties														
Investment property	17 535 101	-	-	-	-	-	**17 535 101**	-	-	-	425 037	-	**425 037**	17 960 138
	17 535 101	**-**	**-**	**-**	**-**	**-**	**17 535 101**	**-**	**-**	**-**	**425 037**	**-**	**425 037**	**17 960 138**
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	-	-	-	-	**598 197 079**	(183 597 395)	-	-	(14 794 662)	-	**(198 392 057)**	399 805 022
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	5 761	-	-	-	-	-	**5 761**	-	-	-	-	-	-	5 761
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment properties	17 535 101	-	-	-	-	-	**17 535 101**	-	-	-	425 037	-	**425 037**	17 960 138
	863 108 646	**55 371 962**	**(29 147 530)**	**-**	**(8 641 200)**	**-**	**880 691 878**	**(210 512 608)**	**66 176**	**-**	**(16 425 069)**	**6 778 872**	**(220 092 629)**	**660 599 249**

Phumelela Local Municipality

Unaudited - Appendix B

Analysis of property, plant and equipment as at 30 June 2017

	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)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Landfill Sites (Separate for AFS pursoses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure														
Roads, Pavements & Bridges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructur)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community Assets														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Phumelela Local Municipality

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June 2017

Analysis of property, plant and equipment as at 30 June 2017

	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														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets														
General vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plant & equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leased assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Phumelela Local Municipality

Unaudited - Appendix B

June 2017

Analysis of property, plant and equipment as at 30 June 2017

	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural/Biological assets														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets														
Computers - software & programming	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment properties														
Investment property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total														
Land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2017

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure				
		Quarter 1	Quarter 2	Quarter 3	Quater 4	Total	Quarter 1	Quarter 2	Quater 3	Quarter 4	Total
Municipal Infrastructure Grant	Treasury	7 470 000	4 540 000	8 080 000	-	20 090 000	3 050 579	4 973 684	3 640 585	8 425 152	20 090
Local Government Financial Management Grant	Treasury	2 010 000	-	-	-	2 010 000	53 755	677 775	57 822	1 220 648	2 010
Equitable Share	Treasury	24 929 000	18 191 000	14 958 000	-	58 078 000	14 403 950	14 403 950	14 403 950	14 403 950	57 615
Dept of Water and Sanitation Grant	Treasury	3 985 180	2 462 971	18 267 433	19 675 150	44 390 735	3 985 180	2 462 971	11 161 285	26 781 298	44 390
DWA Drought relief	Treasury	-	-	-	-	-	-	-	-	-	
Expanded Public Works Programme	Treasury	250 000	450 000	300 000	-	1 000 000	120 330	202 775	150 787	526 107	1 000
		38 644 180	25 643 971	41 605 433	19 675 150	125 568 735	21 613 794	22 721 155	29 414 429	51 357 155	125 106

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