BUFFALO CITY METROPOLITAN ECONOMIC ENTITY
AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipality.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act except where identified as irregular expenditure in the Annual Financial Statements.

Mr. N. Ncunyana **Acting City Manager**	**Date**

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Government
Grading of local authority	Grade 6 Municipality
Acting City Manager	Mr. N. Ncunyana
Chief Financial Officer	Mr. V. Pillay
Jurisdiction	The demarcation board has determined that Buffalo City Metropolitan Entity (BUF) includes the towns of East London, Bhisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas.
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Absa Bank / Standard Bank
Auditors	Auditor General of South Africa
Members of Audit Committee	Mr. V Pangwa (Chairperson) - appointment 01 November 2011 Mr. S Mkebe (Member) - appointment 01 November 2011 Ms. E Ameyaw - Gyarko (Member) - appointment 01 November 2011 Ms. W Dukuza (Member) - appointment 03 March 2014 Mr. H Marsberg (Member) - appointment 03 March 2014 Prof. TM Jordan (Member) - appointment 03 March 2014
Legislation Governing the Municipality	The Constitution of the Republic of South Africa,1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

Index

The statements and notes set out below comprise the audited consolidated annual financial statements:

Index	Page
Statement of Financial Position	3
Statement of Financial Performance	4
Statement of Changes in Net Assets	5
Cash Flow Statement	6
Statement of Comparison of Budget and Actual Amounts	7 - 10
Accounting Policies	11 - 40
Notes to the Audited Consolidated Annual Financial Statements	41 - 106

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	11	36,030,237	44,878,411
Current portion of long-term receivables	8	-	17,552
Current portion of operating leases	9	2,929,996	2,573,198
Receivables from non-exchange transactions	12	695,008,017	372,023,403
VAT receivable	13	96,847,762	83,018,326
Receivables from exchange transations	14	364,776,628	320,652,236
Cash and cash equivalents	15	2,375,581,711	2,200,541,208
		3,571,174,351	**3,023,704,334**
Non-Current Assets			
Investment property	3	342,030,031	328,302,102
Property, plant and equipment	4	12,836,329,496	12,431,621,810
Intangible assets	5	85,956,443	95,114,804
Heritage assets	6	49,632,925	49,632,925
Investments in associate	7	112,291,660	81,908,295
Long-term receivables	8	-	9,440
Non-current portion of operating leases	9	69,017,614	66,444,415
		13,495,258,169	**13,053,033,791**
Total Assets		**17,066,432,520**	**16,076,738,125**
Liabilities			
Current Liabilities			
Borrowings	19	50,709,031	46,097,194
Current tax payable	46	247,681	247,682
Finance lease obligation	17	-	2,738,106
Operating lease liability	9	92,989	-
Payables from exchange transactions	24	932,430,012	603,918,123
VAT payable	25	527,125	169,563
Consumer deposits	26	53,708,070	48,504,722
Post - retirement medical obligation	10	16,966,927	15,665,595
Unspent conditional grants and receipts	18	211,266,395	191,539,228
Provisions	20	174,862,785	166,234,394
		1,440,811,015	**1,075,114,607**
Non-Current Liabilities			
Borrowings	19	445,767,675	496,476,706
Finance lease obligation	17	-	767,176
Post - retirement medical obligation	10	488,148,977	487,757,326
Provisions	20	10,222,692	10,433,259
Other financial liability	23	-	100,000
		944,139,344	**995,534,467**
Total Liabilities		**2,384,950,359**	**2,070,649,074**
Net Assets		**14,681,482,161**	**14,006,089,051**
Reserves:			
Revaluation reserve	16	4,613,940,840	4,622,680,892
Accumulated surplus		10,067,541,332	9,383,408,153
Total Net Assets		**14,681,482,172**	**14,006,089,045**

* See Note 50

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	28	2,749,647,841	2,424,752,656
Rental of facilities and equipment		16,583,409	17,430,173
Licences and permits		12,611,825	14,034,279
Other revenue	29	262,324,403	228,470,463
Interest received	30	187,436,207	159,221,294
Total revenue from exchange transactions		**3,228,603,685**	**2,843,908,865**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	31	865,234,826	794,518,847
Transfer revenue			
Government grants & subsidies	33	1,634,064,239	1,564,005,750
Public contributions and donations - PPE		-	3,410,514
Fines		5,593,754	5,499,648
Fuel levy		370,461,000	361,639,000
Total revenue from non-exchange transactions		**2,875,353,819**	**2,729,073,759**
Total revenue	27	**6,103,957,504**	**5,572,982,624**
Expenditure			
Employee related costs	34	(1,352,200,619)	(1,233,305,396)
Remuneration of councillors	35	(54,375,306)	(48,359,637)
Repairs and maintenance	36	(350,105,699)	(287,392,606)
Depreciation and amortisation	37	(789,811,231)	(684,830,961)
Impairments		-	(504,750)
Finance costs	38	(54,877,713)	(60,674,266)
Debt Impairment	39	(210,111,414)	(365,110,172)
Bulk purchases	40	(1,427,317,753)	(1,213,641,773)
Grants and subsidies paid	32	(237,321,148)	(234,150,609)
General Expenses	42	(988,314,308)	(993,612,130)
Total expenditure		**(5,464,435,191)**	**(5,121,582,300)**
Operating surplus		**639,522,313**	**451,400,324**
Gain (loss) on disposal of assets and liabilities	4	499,569	(32,772,122)
Revaluation realised	16	-	(66,573,130)
Fair value adjustments	43	13,727,929	(4,909,235)
Share of surplus of associate accounted for under the equity method	7	30,383,365	22,359,440
		44,610,863	**(81,895,047)**
Surplus for the year	61	**684,133,176**	**369,505,277**

* See Note 50

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	4,185,854,583	9,006,243,647	13,192,098,230
Adjustments:			
Prior year adjustments (Prior to 2014/15) Refer note 50	-	2,910,795	2,910,795
Balance at 01 July 2014 as restated*	**4,185,854,583**	**9,009,154,442**	**13,195,009,025**
Changes in net assets:			
Write out movable assets	-	(2,196,770)	(2,196,770)
Aquarium animals adjustment	-	40,181	40,181
Zoo animals adjustment	-	328,985	328,985
Take on movable assets	-	6,206,798	6,206,798
Revaluation reversal	(729,373)	369,240	(360,133)
Land revaluation	60,129,906	-	60,129,906
Revaluation reserve realised on derecognition	(9,321,617)	-	(9,321,617)
Revaluation - Wastewater network	386,747,393	-	386,747,393
Sub-Total	436,826,309	4,748,434	441,574,743
Surplus for the year (2014/15 Restated) Refer note 50	-	369,505,277	369,505,277
Total recognised income and expenses for the year	436,826,309	374,253,711	811,080,020
Total changes	436,826,309	374,253,711	811,080,020
Restated* Balance at 01 July 2015	**4,622,680,892**	**9,383,408,156**	**14,006,089,048**
Changes in net assets:			
Surplus for the year	-	684,133,176	684,133,176
Revaluation reserve realised	(3,007,379)	-	(3,007,379)
Disposal of asset	(5,732,673)	-	(5,732,673)
Total changes	(8,740,052)	684,133,176	675,393,124
Balance at 30 June 2016	**4,613,940,840**	**10,067,541,332**	**14,681,482,172**
Note(s)	16	50	

* See Note 50

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services	60	3,687,977,636	3,315,514,687
Government grants & subsidies	60	1,634,064,239	1,564,005,750
Interest received	30	187,436,207	159,221,294
		5,509,478,082	5,038,741,731
Payments			
Employee costs & Councillors remuneration	34&35	(1,406,575,925)	(1,281,665,033)
Suppliers	60	(2,652,952,406)	(2,683,301,788)
Finance costs	38	(54,877,713)	(60,674,266)
		(4,114,406,044)	(4,025,641,087)
Net cash flows from operating activities	45	**1,395,072,038**	**1,013,100,644**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(1,186,372,958)	(930,432,806)
Proceeds from sale of property, plant and equipment	4	10,823,062	6,982,897
Purchase of other intangible assets	5	(9,485)	-
Proceeds from sale of other intangible assets	5	-	110,943
Net movement in long term receivables	8	26,992	15,920
Net cash flows from investing activities		**(1,175,532,389)**	**(923,323,046)**
Cash flows from financing activities			
Net movement on borrowings	19	(46,097,194)	(54,633,002)
Movement in other financial liability	23	(100,000)	-
Net movement on finance leases	17	(3,505,282)	(2,703,208)
Net movement on consumer deposits	26	5,203,348	3,666,911
Net cash flows from financing activities		**(44,499,128)**	**(53,669,299)**
Net increase in cash and cash equivalents		**175,040,521**	**36,108,299**
Cash and cash equivalents at the beginning of the year		2,200,541,208	2,164,432,912
Cash and cash equivalents at the end of the year	15	**2,375,581,729**	**2,200,541,211**

* See Note 50

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2016											
Financial Performance											
Property rates	903,413,151	19,892,671	923,305,822	-		923,305,822	865,234,826		(58,070,996)	94 %	96 %
Service charges	2,686,741,021	113,500,000	2,800,241,021	-		2,800,241,021	2,749,647,841		(50,593,180)	98 %	102 %
Investment revenue	133,684,907	20,000,000	153,684,907	-		153,684,907	187,436,207		33,751,300	122 %	140 %
Transfers recognised - operational grants	1,249,333,299	(171,070,088)	1,078,263,211	-		1,078,263,211	963,670,275		(114,592,936)	89 %	77 %
Other own revenue	746,500,113	(12,999,999)	733,500,114	-		733,500,114	681,801,889		(51,698,225)	93 %	91 %
Total revenue (excluding capital transfers and contributions)	**5,719,672,491**	**(30,677,416)**	**5,688,995,075**	**-**		**5,688,995,075**	**5,447,791,038**		**(241,204,037)**	**96 %**	**95 %**
Employee costs	(1,390,165,567)	(51,453,016)	(1,441,618,583)	-	-	(1,441,618,583)	(1,352,200,619)	-	89,417,964	94 %	97 %
Remuneration of councillors	(53,810,192)	(900,000)	(54,710,192)	-	-	(54,710,192)	(54,375,306)	-	334,886	99 %	101 %
Debt impairment	(245,009,326)	34,730,000	(210,279,326)			(210,279,326)	(210,111,414)	-	167,912	100 %	86 %
Depreciation and asset impairment	(712,213,176)	(126,316,546)	(838,529,722)			(838,529,722)	(789,811,231)	-	48,718,491	94 %	111 %
Finance charges	(54,318,000)	(1,000,000)	(55,318,000)	-	-	(55,318,000)	(54,877,713)	-	440,287	99 %	101 %
Materials and bulk purchases	(1,377,011,714)	(51,100,000)	(1,428,111,714)	-	-	(1,428,111,714)	(1,427,317,753)	-	793,961	100 %	104 %
Transfers and grants	(258,568,483)	10,000,000	(248,568,483)	-	-	(248,568,483)	(237,321,148)	-	11,247,335	95 %	92 %
Other expenditure	(1,635,238,668)	216,716,977	(1,418,521,691)	-	-	(1,418,521,691)	(1,338,420,007)	-	80,101,684	94 %	82 %
Total expenditure	**(5,726,335,126)**	**30,677,415**	**(5,695,657,711)**	**-**	**-**	**(5,695,657,711)**	**(5,464,435,191)**	**-**	**231,222,520**	**96 %**	**95 %**
Surplus/(Deficit)	**(6,662,635)**	**-**	**(6,662,635)**	**-**		**(6,662,636)**	**(16,644,153)**		**(9,981,517)**	**250 %**	**250 %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	850,352,600	(70,340,692)	780,011,908	-		780,011,908	670,393,964		(109,617,944)	86 %	79 %
Surplus (Deficit) after capital transfers and contributions	**843,689,965**	**(70,340,692)**	**773,349,273**	**-**		**773,349,272**	**653,749,811**		**(119,599,461)**	**85 %**	**77 %**
Share of (surplus) deficit of associate	-	-	-	-		-	(30,383,365)		(30,383,365)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**843,689,965**	**(70,340,692)**	**773,349,273**	**-**		**773,349,272**	**684,133,176**		**(89,216,096)**	**88 %**	**81 %**

Capital expenditure and funds sources

Total capital expenditure	1,275,354,230	115,522,930	1,390,877,160	-		1,390,877,160	1,186,372,958		(204,504,202)	85 %	93 %
Sources of capital funds											
Transfers recognised - capital	850,352,600	(70,340,692)	780,011,908	-		780,011,908	670,393,964		(109,617,944)	86 %	79 %
Public contributions and donations	-	458,860	458,860	-		458,860	-		(458,860)	- %	DIV/0 %
Internally generated funds	425,001,630	175,804,487	600,806,117	-		600,806,117	515,978,994		(84,827,123)	86 %	121 %
Total sources of capital funds	**1,275,354,230**	**105,922,655**	**1,381,276,885**	**-**		**1,381,276,885**	**1,186,372,958**		**(194,903,927)**	**86 %**	**93 %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	1,350,928,670	267,690,940	1,618,619,610	-		1,618,619,610	1,395,072,038		(223,547,572)	86 %	103 %
Net cash from (used) investing	(1,275,354,230)	(105,922,655)	(1,381,276,885)	-		(1,381,276,885)	(1,175,532,389)		205,744,496	85 %	92 %
Net cash from (used) financing	(46,097,194)	-	(46,097,194)	-		(46,097,194)	(44,499,128)		1,598,066	97 %	97 %
Net increase/(decrease) in cash and cash equivalents	**29,477,246**	**161,768,285**	**191,245,531**	**-**		**191,245,531**	**175,040,521**		**(16,205,010)**	**92 %**	**594 %**
Cash and cash equivalents at the beginning of the year	2,353,956,269	(155,158,921)	2,198,797,348	-		2,198,797,348	2,200,541,208		1,743,860	100 %	93 %
Cash and cash equivalents at year end	**2,383,433,515**	**6,609,364**	**2,390,042,879**	**-**		**2,390,042,879**	**2,375,581,729**		**14,461,150**	**99 %**	**100 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

Reasons for material variances shown on the Statement of Comparison of Budget and Actual Amounts are detailed below:

REVENUE

Transfers recognised – operational

The transfers recognised relate to grants and subsidies received as well as revenue recognised on grant funded operating projects. Revenue from grant funded projects is recognised as the expenditure is incurred, the low expenditure on grant funded projects has resulted in revenue realised being less than anticipated. The major contributing factor to the under expenditure is pending litigations with service providers and also delays with funding agreements from the Eastern Cape: Department of Human Settlements.

CAPITAL EXPENDITURE AND FUNDS SOURCES

Transfers recognised – capital

The total actual expenditure reported in the AFS is 86% exclusive of VAT as reflected in the AFS. The total actual expenditure including VAT is 97% of the adjusted capital budget. The accounting treatment for expenditure incurred on conditional grants is in line with National Treasury guidelines that is provided in MFMA Circular No 58.

Public contributions & donations

Procurement challenges for fencing of Garcia Flats. A request has been made for the roll-over of budget in 2016/17 financial year due change of project scope.

Internally generated funds

The major contributing factors on low expenditure are procurement and project management challenges that resulted in the slow progress in implementing own funded capital projects, however most of the projects are already awarded and the funding of such projects is fully committed.

Accounting Policies

1. Presentation of Audited Consolidated Annual Financial Statements

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

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

1.1 Significant judgements and sources of estimation uncertainty

In preparing the audited consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited consolidated 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 audited consolidated annual financial statements. Significant judgements include:

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

The entity 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 management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance has been made 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 notes to the financial statements per inventory note 11.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price.

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 entity for similar financial instruments.

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.

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

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 20 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The entity'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 entity 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 entity 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 10.

Effective interest rate

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

Allowance for doubtful debts

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are 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.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both - or under construction) 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.

Investment property excludes owner-occupied property.

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 entity, and the cost or fair value of the investment property can be measured reliably.

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

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

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

Accounting Policies

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

The initial cost of a property interest held under a lease and classified as an investment property has been recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

1.3 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 entity; 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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, exept for land, buildings, other properties , community properties, roads, electricity, water and sanitation which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. 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 asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

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

Item	Depreciation method	Average useful life
Land landfill sites	Straight line	50
Buildings	Straight line	30
Plant and machinery	Straight line	3 to 30
Motor vehicles	Straight line	4 to 15
Furniture and fittings	Diminishing balance	3 to 5
Electricity	Straight line	10 to 60
Community - Buildings	Straight line	30
Community - Recreation	Straight line	20 to 30
Other properties	Straight line	5 to 50

1.3 Property, plant and equipment (continued)

Finance Leased Assets	Straight line	5
Roads	Straight line	5 to 100
Wastewater network	Straight line	5 to 80
Water network	Straight line	5 to 150
Heritage Assets	Straight line	Indefinite

The Municipality acquires and maintains assets to provide social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than that of certain Plant and Equipment, and Transport assets with significant carrying values. For Plant and Equipment and Transport assets (Above R5000) the residual value and the useful life of an asset and the deprecation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimates in the Statement of Financial Performance. Minor assets (Below R5000) are recognised and depreciated annually to R1 and are included in the asset register mainly for completeness and monitoring purposes.

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

1.4 Site restoration and dismantling cost

The entity 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 which a entity 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 entity 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 and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited 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
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) 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; and

(c) 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 end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from a entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses except for servitudes which are carried at revalued amounts being the fair value at the date of revaluation.

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

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

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

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

1.5 Intangible assets (continued)

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

Item	Useful life
Computer software	3 years

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

1.6 Heritage assets

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.

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

A class of heritage assets means a grouping of heritage assets of a similar nature or function in a entity's operations that is shown as a single item for the purpose of disclosure in the audited consolidated annual financial statements.

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

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

Recognition

The entity 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 entity, and the cost or fair value of the asset can be measured reliably.

If a entity holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

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.

Impairment

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

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.6 Heritage assets (continued)

Derecognition

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

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

1.7 Investments in associate

An associate is a entity over which the entity is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/ (deficits) less any dividends received.

Where the entity or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the municipality's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the entity is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The entity uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the entity makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the entity.

1.8 Financial instruments

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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, a entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

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

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 21:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position and in note 22:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value
Other deposits	Financial liability measured at fair value

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, 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, a entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The entity assesses 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:

Accounting Policies

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.

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.

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

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

1.9 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Accounting Policies

1.9 Tax (continued)

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.10 Leases

A lease is either a written of implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under spedific conditions, in return for specific periodic rental or lease payments.

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.

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 or the incremental borrowing rate.

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 reduction on the remaining balance of the liability.

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

1.10 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.

1.11 Inventories

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

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

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

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

Current replacement cost is the cost the entity 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 entity.

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

1.12 Impairment of cash-generating assets

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

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

The 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.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

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

Depreciation and/or 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.

The recoverable amount of an asset or a cash-generating unit is the higher of 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 entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Identification

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

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

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 entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity 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 entity 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.

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

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

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

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

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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.

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

Depreciation and/or 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.

The 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 entity; or
(b) the number of production or similar units expected to be obtained from the asset by the entity.

Accounting Policies

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

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-cash-generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an asset or non-cash-generating unit is lower than its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in the the revaluation reserve in respect of assets at revalued amounts.

Identification

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

The entity 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 entity estimates the recoverable service amount of the asset.

Value in use

The 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 the 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 entity 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.

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 entity 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.

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

Reversal of an impairment loss

The entity assesses 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 entity estimates the recoverable service amount of that asset.

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

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

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

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

Redesignation

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

1.14 Employee benefits

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

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

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

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

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

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

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.

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

Accounting Policies

1.14 Employee benefits (continued)

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

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

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

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 a entity provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a entity pays fixed contributions into a separate municipal fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a entity recognises 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount 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 obligation.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise of expense 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 entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by a entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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 entity recognises 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 and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity accounts 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 entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity'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 entity 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 entity determines 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 audited consolidated annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.14 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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. Within surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.14 Employee benefits (continued)

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.

1.15 Provisions and contingencies

Provisions are recognised when:
- the entity 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 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 entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

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

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.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingencies are disclosed in note 48.

1.16 Commitments

Items are classified as commitments when the entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the entity determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. (Refer to note 47)

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.

An exchange transaction is one in which the entity 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.

1.17 Revenue from exchange transactions (continued)

Measurement

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

Service charges relating to solid waste, sanitation and sewerage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognised in the period when the consumption took place. Provisional estimates of consumption are made monthly when meter readings have not been performed. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

To include all revenue in the financial period, calculations and accruals are made to account for consumption that took place during the last meter reading dates and the financial year end.

Services provided on a prepayment basis are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end, based on the average consumption history.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity 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 entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

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

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

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a entity, 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 arises, when the entity 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.

Fines are economic benefits or service potential received or receivable by municipalities, 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, a entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity 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 entity.

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

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

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

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

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

Taxes (Property rates)

The entity recognises an asset in respect of taxes at the gross amount when the taxable event occurs and the asset recognition criteria are met.

Transfers

The entity 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.

Debt forgiveness and assumption of liabilities

The entity recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

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.

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 entity.

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

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably.

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 entity and the fair value of the assets can be measured reliably.

1.19 Investment income

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

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. The entity applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.11, 1.12 and 1.13. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

Irregular expenditure 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.

1.24 Irregular expenditure (continued)

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

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

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

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

1.25 Use of estimates

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

1.26 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.27 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.28 Conditional grants and receipts

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

1.29 Budget information

Municipalities 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 the entity 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 functional classification linked to performance outcome objectives.

Accounting Policies

1.29 Budget information (continued)

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

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

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in the Statement of Comparison of Budget and Actual Amounts to the annual financial statements.

1.30 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of the entity / municipal entity. (Refer to note 49)

1.31 Value added tax (VAT)

The entity accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. (Refer to note 13)

1.32 Investments

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

Notes to the Audited Consolidated Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2017	The impact of the amendment is not material.
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

3. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	342,030,031	-	342,030,031	328,302,102	-	328,302,102

Reconciliation of investment property - 2016

	Opening balance	**Fair value adjustments**	**Total**
Investment property	328,302,102	13,727,929	342,030,031

Reconciliation of investment property - 2015

	Opening balance	**Fair value adjustments**	**Total**
Investment property	333,211,337	(4,909,235)	328,302,102

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 entity.

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R350 156 438 including repairs and maintenance expenses on investment properties.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

Per accounting policies note 1.2 the entity is on the fair value model for investment property.

There are no restrictions on investment properties.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 4973/1.

The value of investment property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparible market transactions.

The preferred valuation methodology applied was that of comparible market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties.

In the case of properties which were deemed to be classified as investment properties, for which no comparable market related sales nor rentals exist, such as golf courses, land was valued by multiplying the extent, as confirmed through the deeds office and cadastre, with comparable market related sales based on similar zoning, and not use. In the case of buildings associated with such properties, for which no comparable sales, past or present, could be established, the replacement cost of the buildings were deemed to reflect a fair value of the property.

Rental income from investment properties in respect of monthly and annual leases amounted to R10 696 877 (2015: R10,144,643).

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	386,313,045	-	386,313,045	386,313,045	-	386,313,045
Plant and equipment	112,039,624	(73,274,363)	38,765,261	91,839,909	(64,098,704)	27,741,205
Furniture and fittings	41,771,294	(23,486,128)	18,285,166	41,383,540	(16,092,398)	25,291,142
Motor vehicles	355,373,613	(141,940,026)	213,433,587	327,563,913	(138,712,691)	188,851,222
Office equipment	46,965,035	(30,076,422)	16,888,613	46,215,449	(21,465,860)	24,749,589
IT equipment	45,616	(1,890)	43,726	-	-	-
Electricity	4,611,086,440	(2,808,045,043)	1,803,041,397	4,491,750,901	(2,709,371,599)	1,782,379,302
Other properties	1,187,054,841	(586,003,586)	601,051,255	1,149,562,517	(556,062,688)	593,499,829
Work in progress (WIP)	1,703,369,029	-	1,703,369,029	1,157,486,634	-	1,157,486,634
Recreational facilities	480,037,792	(313,281,140)	166,756,652	479,957,910	(296,183,554)	183,774,356
Finance Leased Assets	8,302,521	(5,428,567)	2,873,954	9,052,311	(4,529,712)	4,522,599
Roads	8,244,469,565	(4,543,021,190)	3,701,448,375	7,930,657,984	(4,275,222,887)	3,655,435,097
Wastewater network	5,297,281,614	(3,460,274,003)	1,837,007,611	5,244,074,680	(3,353,333,848)	1,890,740,832
Water network	5,383,365,274	(3,503,867,126)	1,879,498,148	5,375,890,627	(3,362,612,311)	2,013,278,316
Community buildings	1,144,919,297	(677,365,620)	467,553,677	1,144,866,657	(647,308,015)	497,558,642
Total	**29,002,394,600**	**(16,166,065,104)**	**12,836,329,496**	**27,876,616,077**	**(15,444,994,267)**	**12,431,621,810**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Adjustments	WIP capitalised	Depreciation	Total
Land	386,313,046	-	-	-	-	-	386,313,046
Plant and equipment	27,741,205	20,436,102	(53,970)	-	-	(9,358,076)	38,765,261
Furniture and fittings	25,291,142	1,797,836	(644,005)	-	-	(8,159,807)	18,285,166
Motor vehicles	188,851,222	38,290,409	(663,111)	-	-	(13,044,933)	213,433,587
Office equipment	24,749,589	3,135,993	(456,246)	-	-	(10,540,723)	16,888,613
IT equipment	-	45,616	-	-	-	(1,890)	43,726
Electricity	1,782,379,302	137,711,686	(6,502,028)	-	260,901	(110,808,464)	1,803,041,397
Other properties	593,499,829	29,074,502	-	8,417,824	-	(29,940,899)	601,051,255
Work in progress (WIP)	1,157,486,634	822,378,104	-	(275,052)	(276,220,657)	-	1,703,369,029
Recreational facilities	183,774,356	495,614	(208,302)	-	114,900	(17,419,916)	166,756,652
Finance leased Assets	4,522,604	-	(293,545)	-	-	(1,355,105)	2,873,954
Roads	3,655,435,097	107,170,844	(1,463,417)	-	231,009,940	(290,704,089)	3,701,448,375
Wastewater network	1,890,740,832	8,974,617	-	-	44,232,317	(106,940,155)	1,837,007,611
Water network	2,013,278,316	7,474,646	-	-	-	(141,254,814)	1,879,498,148
Community buildings	497,558,642	9,386,989	(38,869)	-	602,599	(39,955,684)	467,553,677
	12,431,621,816	**1,186,372,958**	**(10,323,493)**	**8,142,772**	**-**	**(779,484,555)**	**12,836,329,497**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Non-cash additions	Transfers	Revaluations	Adjustments	WIP capitalised	Depreciation	Impairment loss	Total
Land	402,144,885	-	(67,000)	-	-	(15,764,840)	-	-	-	-	386,313
Plant and equipment	29,854,895	2,578,216	-	-	(10,659)	-	4,248,398	-	(8,601,995)	(327,650)	27,741
Furniture and fittings	20,405,931	1,639,203	(5,195)	6,580,774	(802,074)	-	-	-	(2,396,267)	(131,230)	25,291
Motor vehicles	163,481,434	48,370,427	(12,100,457)	-	(761,147)	-	-	-	(10,139,035)	-	188,851
Office equipment	18,981,640	3,650,361	(2,590)	6,017,450	(81,866)	-	335,392	-	(4,138,978)	(11,820)	24,749
Electricity	1,666,848,166	131,606,894	(16,723,480)	-	-	-	-	107,099,594	(106,451,872)	-	1,782,379
Other properties	624,188,730	-	-	-	1,029,161	-	-	-	(31,718,062)	-	593,499
Work in progress (WIP)	760,862,621	617,709,368	-	-	(368,287)	-	-	(220,717,068)	-	-	1,157,486
Recreational facilities	198,931,739	1,757,702	-	-	-	-	369,167	-	(17,284,252)	-	183,774
Finance Leased Assets	7,678,494	-	(2,320,925)	493,860	-	-	-	-	(1,328,830)	-	4,522
Roads	3,860,296,915	31,121,848	(4,344,206)	3,410,512	-	-	-	44,264,929	(279,314,901)	-	3,655,435
Wastewater network	1,894,818,766	15,625,228	-	-	-	-	-	19,600,193	(39,303,355)	-	1,890,740
Water network	2,069,258,886	66,358,761	(949,562)	-	-	-	-	18,861,445	(140,251,214)	-	2,013,278
Community buildings	500,183,519	10,014,798	(3,241,604)	-	-	-	-	30,890,907	(40,288,978)	-	497,558
	12,217,936,621	**930,432,806**	**(39,755,019)**	**16,502,596**	**(994,872)**	**(15,764,840)**	**4,952,957**	**-**	**(681,217,739)**	**(470,700)**	**12,431,621**

Proceeds on disposal of PPE	**2016**	**2015**
Carrying value of PPE	10,323,493	39,755,019
Net gain/(loss) on disposal of assets	499,569	(32,772,122)
	10,823,062	**6,982,897**

There are currently 10 960 assets that have carrying values between R0.00 and R1.00, which are still in use.

As at 30 June 2016 the total cost of all fully depreciated assets amount to R 85 440 732 (2015: R 135 745 358).

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

As at 30 June 2016 there are assets retired from active use and held for disposal.

For future capital commitments refer to note 47.

Properties for which title deeds are registered under the name of the municipality have not been included in the Municipality's financial records. These properties are represented by RDP land, ex Ciskei and other land parcels, vacant and improved. The municipality is of the view that these properties will have a net realisable value of NIL as they will either be transferred to RDP housing beneficiaries or have long serving residents for which there has been a delay in the transfer of title. It should furthermore be noted that management is of the view that the inclusion of this value in the Annual Financial Statements could result in a misrepresentation of financial information for users of the Annual Financial Statements.

Prior period errors - Proceeds on disposal of PPE	**50**		
Balance previously reported		-	(30,408,389)
Adjusted - Note 50		-	(2,363,733)
Restated		**-**	**(32,772,122)**
Prior period errors - Plant, Furniture and Office Equipment	**50**		
Balance previously reported		-	69,468,510
Adjusted - Note 50		-	(914,290)
Adjusted opening balances and additions 2015 from WIP		-	9,265,716
Restated		**-**	**77,819,936**
Prior period errors - WIP	**50**		
Balance previously reported		-	1,214,458,013
Adjusted - Note 50		-	685,821
WIP capitalised 2014		-	(28,940,442)
WIP capitalised 2015		-	(28,716,758)
Restated		**-**	**1,157,486,634**
Prior period errors - Roads	**50**		
Balance previously reported		-	3,635,983,636
Adjusted - Note 50		-	(2,125,867)
WIP capitalised 2014		-	17,872,305
WIP capitalised 2015		-	3,705,023

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Restated		**-**	**3,655,435,097**
Prior period errors - Wastewater network	**50**		
Balance previously reported		-	1,440,480,770
Adjusted - Note 50		-	63,377,560
Adjusted - Note 16 Revaluation reserve		-	386,747,392
WIP capitalised 2015		-	135,110
Restated		**-**	**1,890,740,832**
Prior period errors - Water network	**50**		
Balance previously reported		-	2,004,825,921
Adjusted - Note 50		-	(868,466)
WIP capitalised 2015		-	9,320,859
Restated		**-**	**2,013,278,314**
Prior period errors - Electricity network	**50**		
Balance previously reported		-	1,782,204,574
Adjusted - Note 50		-	(68,863)
WIP capitalised 2015		-	243,592
Restated		**-**	**1,782,379,303**
Prior period errors - Other properties	**50**		
Balance previously reported		-	593,363,646
Adjusted - Note 50		-	(17,230)
WIP capitalised 2014		-	153,416
Restated		**-**	**593,499,832**
Prior period errors - Community buildings	**50**		
Balance previously reported		-	482,720,937
Adjusted - Note 50		-	(2,161,481)
WIP capitalised 2014		-	2,062,822
WIP capitalised 2015		-	14,936,359

4. Property, plant and equipment (continued)

Restated	**-**	**497,558,637**

5. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	41,430,180	(26,847,965)	14,582,215	25,399,190	(17,680,120)	7,719,070
Intangible assets under development	-	-	-	16,021,506	-	16,021,506
Servitudes	71,374,228	-	71,374,228	71,374,228	-	71,374,228
Total	**112,804,408**	**(26,847,965)**	**85,956,443**	**112,794,924**	**(17,680,120)**	**95,114,804**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	WIP transfers	Amortisation	Total
Computer software	7,719,070	9,485	16,021,505	(9,167,844)	14,582,216
Intangible assets under development	16,021,505	-	(16,021,505)	-	-
Servitudes	71,374,228	-	-	-	71,374,228
	95,114,803	**9,485**	**-**	**(9,167,844)**	**85,956,444**

Figures in Rand	2016	2015

5. **Intangible assets (continued)**

Reconciliation of intangible assets - 2015

	Opening balance	Disposals	Transfers	Amortisation	Total
Computer software, other	8,490,528	(110,943)	1,901,063	(2,561,578)	7,719,070
Intangible assets under development	17,922,569	-	(1,901,063)	-	16,021,506
Servitudes	71,374,228	-	-	-	71,374,228
	97,787,325	**(110,943)**	**-**	**(2,561,578)**	**95,114,804**

	Note	2016	2015
Prior period adjustment	**50**		
Balance previously reported		-	98,373,779
Adjusted for amortisation re-stated - Note 50		-	(3,258,979)
Restated		**-**	**95,114,800**

6. **Heritage assets**

	2016			2015		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Heritage sites	49,632,925	-	49,632,925	49,632,925	-	49,632,925

Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage sites	49,632,925	49,632,925

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage sites	49,632,925	49,632,925

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. (This is an accounting disclosure)

Where practical, heritage assets were valued on the replacement value method and retrospectively restated on 01 July 2012 in accordance with the transitional provision applicable to GRAP 103. However, due to the nature of certain heritage assets, it is not possible or practical to establish a fair value associated with these assets and have been recognised in accordance with GRAP 103.94.

7. **Investments in associate**

Name of entity	Listed / Unlisted	% holding 2016	% holding 2015	Carrying amount 2016	Carrying amount 2015
BCMM share in IDZ - 26,000 shares @ 0,01c included in the carrying amount		26.00 %	26.00 %	112,291,660	81,908,295
East London Industrial Development Zone (Pty) Ltd (IDZ)		26.00 %	26.00 %	-	-
				112,291,660	81,908,295

The carrying amount of the associate is shown net of impairment losses.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

7. Investments in associate (continued)

Movements in carrying value

	2016	2015
Opening balance	81,908,295	59,548,855
Share of surplus/deficit	30,383,365	22,359,440
	112,291,660	**81,908,295**

Investment in associate amounted to R 112,291,660 (2015: R 81,908,295).

Fair value

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

Principal activities, country of incorporation and voting power

Legal name	Principal activity	Country of incorporation	Proportion of voting power
East London Industrial Development Zone (Pty)Ltd	Development of East London's Industrial Development Zone.	SA	26%

Summary of controlled entity's interest in associate

	2016	2015
Total assets	540,209,663	525,846,084
Total liabilities	427,918,003	463,633,942
Revenue	28,759,383	25,056,668
Surplus	30,383,365	22,359,440
Total equity	112,291,660	81,908,295

Associates with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2015 to 31 March 2016 and the quarter ending 30 June 2016.

Per Accounting Policy 1.7, the entity uses the most recent available financial statement of the associate in applying the equity method.

8. Current portion of long-term receivables

	2016	2015
Financial assets at amortised cost		
Sporting bodies and other loans	-	26,992

	2016	2015
Non-current assets		
Financial assets at amortised cost	-	9,440

Figures in Rand	2016	2015

8. Current portion of long-term receivables (continued)

Current assets		
Financial assets at amortised cost	-	17,552

Sporting bodies: Loans were granted to sporting bodies before the implementation of the MFMA. No new loans have been issued and the remaining loans are redeemable until 2016. The above amounts relate to two loans that were issued to Beacon Bay Country Club on 30 June 1995 and 30 June 1996 payable over 21.5 and 20.5 years respectively. The last payment was due on 31 December 2016 but the final payment was made in March 2016.

No security is held for any of the long-term receivables.

The credit quality of long-term receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

No long-term receivables defaulted and no terms of any of the long-term receivables were re-negotiated.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

No portion of the long-term receivables was pledged as security for any financial liabilities.

9. Operating leases

Non-current assets	69,017,614	66,444,415
Current assets	2,929,996	2,573,198
Current liabilities	(92,989)	-
	71,854,621	**69,017,613**

Municipality as lessor: Operating leases minimum future receivables		
No later than one year	2,449,762	1,977,887
Later than one year no later than 5 years	10,068,605	9,391,518
Later than 5 years	451,262,058	168,945,431
	463,780,425	**180,314,836**

These leases are in respect of municipal properties that are leased to third parties. These leases are payable by lessees, either monthly or annually. Leases payable monthly and annually by lessees escalate at annual fixed rates that vary between 0% and 12.5% annually.

No contingent rent was recognised as revenue because rental increases are escalated at a fixed percentage. Increases are not based on indices or bases that result in a fluctuating interest rate.

The operating lease accrual arises from the differences between the actual rental and average rental at balance sheet date. During the 2015/16 financial year the net amount of R2 929 997 (2015: R1 258 913) has been accrued.

There are no sublease arrangements.

BCMDA - The operating lease accrual of R 92 989 is as a result of rental of premises and that of a multipurpose printing/copier machine. The operating lease on premises is for a twelve month period and the photocopier is for a duration of 36 months with no escalation.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

10. Post - retirement medical obligation

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

Carrying value		
Balance at beginning of the year	503,422,921	414,074,719
Interest cost	44,656,361	36,636,940
Current service cost	23,246,493	19,861,974
Actual employer benefit payments	(16,966,927)	(15,665,595)
Actuarial loss/(gain) recognised in the year	(49,242,944)	48,514,883
	505,115,904	**503,422,921**
Non-current liabilities	(488,148,977)	(487,757,326)
Current liabilities	(16,966,927)	(15,665,595)
Net liability	**(505,115,904)**	**(503,422,921)**

Net costs		
Interest cost	23,246,493	36,636,940
Current service cost	44,656,361	19,861,974
Actuarial (gain)/loss recognised in the year	(49,242,944)	48,514,883
Net cost per Statement of Financial Performance	**18,659,910**	**105,013,797**

The best estimates for the employer benefit payments in the 2016/17 financial period is expected to be R17 441 604 (The actual employer benefit payments in the 2015/16 financial period was R16 966 927).

The entity employees contribute to 5 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med and Hosmed. Pensioners continue on the option they belonged to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared in July 2016 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

The entity opted not to recognise the actuarial loss applying the "Corridor" method.

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. The liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

10. Post - retirement medical obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	9.43 %	9.01 %
Health care cost inflation rate	8.48 %	8.12 %
Net discount rate	0.88 %	0.82 %
Maximum Subsidy inflation rate	5.98 %	7.62 %
Net discount rate for capped subsidies	3.25 %	1.29 %
Average retirement age	63	63
Pre-retirement mortality	SA 85-90	SA 85-90
Post-retirement mortality	PA(90) - 1	SA(90) - 1
Proportion married at retirement	90%	90%
Continuation of membership at retirement	100%	100%

In-service members		
Number of in-service members	2889	2688
Average age	43,9	43,7
Average past service	11,4	11,5
Average present value of subsidy at retirement	R 1616	R 1783

Continuation members		
Number of principle members	548	521
Proportion with spouse dependants	40%	41%
Average age of members	70,6	70,7
Average employer contribution p.m.	R 2652	R 2551

10. Post - retirement medical obligation (continued)

Sensitivity results

The liability at the Valuation Date was recalculated to show the effect of:

- A 1% increase and decrease in the assumed rate of health care cost inflation;
- A 1% increase and decrease in the discount rate;
- A one-year age reduction in the assumed rates of post-retirement mortality;
- A one-year decrease in the assumed average retirement age; and
- A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Assumption	Change	In-service	Continuation	Total	% change
Central assumptions		292,094	213,022	505,116	
Health care inflation	+1%	323,903	225,156	549,058	9%
	-1%	254,660	199,236	453,896	-10%
Discount rate	+1%	242,808	195,010	437,818	-13%
	-1%	355,433	234,187	589,620	17%
Post-retirement mortality	-1 yr	301,781	221,022	523,027	4%
Average retirement age	-1 yr	322,115	213,022	535,137	6%
Continuation of membership at retirement	-10%	262,884	213,022	475,907	-6%

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 9% higher than that shown.

The table below summarises the result of this analysis on the Current-service and Interest costs for the year ending 30 June 2016.

Assumption	Change	Current service cost	Interest cost	Total	% change
Central assumptions		23,246,500	44,656400	67,902,900	
Health care inflation	+1%	28,530,500	51,753,600	8,284,100	18%
	-1%	18,768,400	38,460,900	57,229,300	-16%
Discount rate	+1%	18,943,500	42,696,300	61,639,800	-9%
	-1%	28,886,400	46,694,500	75,580,900	11%
Post-retirement mortality	-1 yr	24,112,100	46,435,400	70,547,500	4%
Average retirement age	-1 yr	25,250,400	47,253,900	72,504,300	7%
Continuation of membership at retirement	-10%	20,921,800	42,032,300	62,954,100	-7%

These figures were derived at the last valuation and were also presented in that report.

The table below summarises the result of this analysis on the Current-service and Interest costs for the year ending 30 June 2017.

Assumption	Change	Current service cost	Interest cost	Total	% change
Central assumptions		23,369,100	46,816,200	70,185,300	
Health care inflation	+1%	26,131,200	50,958,900	77,090,100	10%
	-1%	20,021,200	41,987,400	62,008,600	-12%
Discount rate	+1%	19,176,800	44,766,700	63,943,500	-9%
	-1%	28,821,200	48,970,200	77,791,400	11%
Post-retirement mortality	-1 yr	24,142,900	48,504,800	72,647,700	4%
Average retirement age	-1 yr	25,289,900	49,646,400	74,936,300	7%
Continuation of membership at retirement	-10%	21,032,200	44,062,500	65,094,700	-7%

10. Post - retirement medical obligation (continued)

History of Liabilities, Assets and Experience Adjustments

The table below summarises the accrued liabilities and the plan assets for the current period and previous periods.

Liability History	30/06/2012	30/06/2013	30/06/2014	30/06/2015	30/06/2016
Present value of accrued liability (R'000)	318261	368461	414075	503423	505116
Fair vale of plan asset	0,000	0,000	0,000	0,000	0,000
Surplus / (Deficit)	**(318,261)**	**(368,461)**	**(414,075.000)**	**(503,423)**	**(505,116)**

The table below summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occured.

Experience adjustments	Year ending 30/06/2012	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016
Liabilities: (Gain) / Loss	(16,259)	18,314	7.896	37,093	(11,690)

11. Inventories

	2016	2015
Electricity store (Electrical maintenance parts)	7,997,872	8,845,195
Workshop store (Mechanical maintenance parts)	155,400	492,725
General stores (Chiselhurst, Mdantsane, KWT)	13,539,978	18,583,553
Water store (Water maintenance parts)	14,925,761	17,341,712
Fuel (Diesel, Petrol)	904,175	1,541,077
Unsold water (Treated water in pipelines & reservoirs)	4,102,584	3,670,484
	41,625,770	50,474,746
Inventories (write-downs)	(5,595,533)	(5,596,335)
	36,030,237	**44,878,411**

Carrying value of stock is disclosed at the lower of cost and net realisable value.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

Inventory write-downs is included under note 42 : General Expenses - Other expenses.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

12. Receivables from non-exchange transactions

Traffic fines		13,084,667	13,930,754
Other receivables (billing)		237,565,082	132,230,512
Other debtors		11,867,912	10,910,667
Accrued income		343,802,261	186,693,707
Property rates		422,709,232	328,375,040
Allowance for impairment property rates and other receivables billing		(334,021,137)	(300,117,277)
		695,008,017	**372,023,403**

Property rates age analysis			
Current (0-30 days)		60,602,832	62,520,144
31-60 days		20,709,231	18,109,157
61-90 days		14,262,118	12,221,058
91-120 days		13,245,330	11,654,734
121-365 days		102,518,303	86,861,530
> 365 days		211,371,420	137,008,417
		422,709,234	**328,375,040**

Other receivables (billing) age analysis			
Current (0-30 days)		18,159,786	10,166,941
31-60 days		5,698,151	2,898,536
61-90 days		4,077,178	2,193,074
91-120 days		4,008,600	2,007,582
121-365 days		32,992,111	20,398,852
> 365 days		172,629,255	94,565,527
		237,565,081	**132,230,512**

Prior period errors-accrued income	**50**		
Balance previously reported		-	188,795,171
Adjusted-Note 50		-	(2,101,464)
Restated		**-**	**186,693,707**

Traffic fines			
Opening Balance - Total Outstanding Fines (Based on current and prior 2 years)		**42,214,406**	**37,616,476**
Less: Outstanding Fines in respect of prior third year		(12,914,537)	(8,425,674)
Total Traffic Fines Issued BCMM		**23,371,688**	**22,571,090**
Traffic Fines withdrawn, untraceable and uncollectable		(2,233,205)	(4,951,988)
Traffic Fines Paid		(6,260,884)	(4,595,498)
Total Outstanding Fines		**44,177,468**	**42,214,406**
Impairment (Based on a probability collection factor of approx. 30 % - 2016 and 33% - 2015)		(31,092,801)	(28,283,652)
Traffic Fines Debtor		**13,084,667**	**13,930,754**

Trade and other receivables from non-exchange transactions pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivables.

These accounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

12. Receivables from non-exchange transactions (continued)

Credit quality of trade and other receivables from non-exchange transactions

The credit quality of trade and other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

Trade and other receivables from non-exchange transactions impaired

As of 30 June 2016, trade and other receivables from non-exchange transactions of R (334,021,137) (2015: R 300,117,277) were impaired and provided for.

Amounts totaling R 5,451,786 (2015: R 27,475,531) were written off as uncollectable againts the debt impairment allowance account. This represents 0.0009% (2015: 0.005%) of the total operating income for the year.

Reconciliation of allowance for impairment of trade and other receivables from non-exchange transactions

	2016	2015
Opening balance	(300,117,277)	(229,676,688)
Contributed during the year	(39,355,646)	(97,916,120)
Amounts written off as uncollectable	5,451,786	27,475,531
	(334,021,137)	**(300,117,277)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 39). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or credit enhancements.

13. VAT receivable

	2016	2015
VAT	96,847,762	83,018,326

VAT is payable on the receipt basis. VAT is only declared to SARS on receipt of payment from customers.

14. Receivables from exchange transactions

	2016	2015
Gross balances		
Electricity	226,346,308	199,865,559
Water	479,803,245	378,183,394
Sewerage	181,313,338	148,724,039
Refuse	240,556,873	190,376,047
Housing rental	48,158	3,131,277
	1,128,067,922	**920,280,316**
Less: Allowance for impairment		
Electricity	(134,028,183)	(130,226,627)
Water	(332,473,256)	(246,413,379)
Sewerage	(129,536,090)	(96,904,289)
Refuse	(167,205,607)	(124,043,535)
Housing rental	(48,158)	(2,040,250)
	(763,291,294)	**(599,628,080)**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Net balance		
Electricity	92,318,125	69,638,932
Water	147,329,989	131,770,015
Sewerage	51,777,248	51,819,750
Refuse	73,351,266	66,332,512
Housing rental	-	1,091,027
	364,776,628	**320,652,236**

Electricity		
Current (0 -30 days)	165,638,029	149,659,289
31 - 60 days	8,807,312	7,560,772
61 - 90 days	4,200,231	3,229,795
91 - 120 days	3,377,867	2,084,981
121 - 365 days	13,420,484	12,005,122
> 365 days	30,902,385	25,325,600
	226,346,308	**199,865,559**

Water		
Current (0 -30 days)	92,539,366	67,474,816
31 - 60 days	26,003,025	28,685,375
61 - 90 days	14,373,318	20,030,545
91 - 120 days	17,715,041	14,118,926
121 - 365 days	104,572,989	76,964,095
> 365 days	224,599,507	170,909,637
	479,803,246	**378,183,394**

Sewerage		
Current (0 -30 days)	24,098,893	19,365,305
31 - 60 days	7,330,052	6,181,539
61 - 90 days	4,626,285	3,834,382
91 - 120 days	4,228,421	3,279,806
121 - 365 days	31,894,354	24,372,324
> 365 days	109,135,334	91,690,683
	181,313,339	**148,724,039**

Refuse		
Current (0 -30 days)	21,553,765	14,208,377
31 - 60 days	7,873,356	6,436,764
61 - 90 days	5,812,927	4,610,541
91 - 120 days	5,485,077	4,144,391
121 - 365 days	40,731,880	30,840,815
> 365 days	159,099,868	130,135,159
	240,556,873	**190,376,047**

Housing rental		
Current (0 -30 days)	-	72,403
31 - 60 days	-	64,539
61 - 90 days	-	62,241
91 - 120 days	-	62,653
121 - 365 days	-	486,061
> 365 days	48,158	2,383,380
	48,158	**3,131,277**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Summary of debtors by customer classification: (This refers to the total debtor classification including exchange and non-exchange transactions as per billing system i.e. this includes rates and other billing receivables)

Domestic Debtors (including rates and other receivables (billing))		
Current (0 -30 days)	161,381,229	131,934,120
31 - 60 days	52,829,536	51,542,274
61 - 90 days	35,444,704	34,120,764
91 - 120 days	37,591,535	26,593,328
121 - 365 days	250,388,673	189,270,075
> 365 days	772,210,785	586,982,093
	1,309,846,462	1,020,442,654
Less: Allowance for impairment	(866,735,321)	(781,401,973)
	443,111,141	**239,040,681**

Industrial/ commercial		
Current (0 -30 days)	189,082,926	175,311,915
31 - 60 days	18,411,756	16,827,326
61 - 90 days	11,620,925	11,649,165
91 - 120 days	10,089,983	9,214,042
121 - 365 days	72,911,579	61,296,100
> 365 days	132,173,925	63,055,099
	434,291,094	337,353,647
Less: Allowance for impairment	(230,577,111)	(118,343,383)
	203,713,983	**219,010,264**

National and provincial government		
Current (0 -30 days)	32,128,515	16,221,240
31 - 60 days	5,179,836	1,567,083
61 - 90 days	286,426	411,706
91 - 120 days	378,817	1,545,703
121 - 365 days	2,829,870	1,362,624
> 365 days	3,401,217	1,981,212
	44,204,681	**23,089,568**

Total Debtors (including rates and other receivables (billing))		
Current (0 -30 days)	382,592,670	323,467,274
31 - 60 days	76,421,127	69,936,683
61 - 90 days	47,352,056	46,181,634
91 - 120 days	48,060,335	37,353,073
121 - 365 days	326,130,122	251,928,799
> 365 days	907,785,927	652,018,404
	1,788,342,237	1,380,885,867
Less: Allowance for impairment	(1,097,312,430)	(899,745,356)
	691,029,807	**481,140,511**

Ageing of allowance for impairment (including rates & receivables billing)		
Current (0 -30 days)	(548,656)	(449,873)
31 - 60 days	(72,575,224)	(59,508,322)
61 - 90 days	(47,923,955)	(39,295,423)
91 - 120 days	(38,762,314)	(31,783,302)
121 - 365 days	(261,433,461)	(214,363,326)
> 365 days	(676,068,820)	(554,345,110)
	(1,097,312,430)	**(899,745,356)**

Figures in Rand	2016	2015

14. Receivables from exchange transactions (continued)

Consumer Debtors not past due nor impaired therefore no impairment allowance raised:		
Current (0 -30 days)	691,029,807	481,140,511
Consumer Debtors for which an impairment allowance was raised:		
Provision	1,097,312,430	899,745,356

Consumer debtors pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any of the accounts receivable.

Credit quality of consumer debtors

The credit quality of consumer debtors 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. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

Consumer debtors impaired

As of 30 June 2016, consumer debtors of R (763,291,294) (2015: R (599,628,080)) were impaired and provided for.

Amounts totaling R 7,092,554 as of 30 June 2016 (2015: R 124,039,136) were written off as uncollectable against the debt impairment allowance account. This represents R 0.0012% (2015: R 0.0223%) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(599,628,080)	(456,449,613)
Contributions during the year	(170,755,768)	(267,194,053)
Amounts written off as uncollectable	7,092,554	124,039,136
Other income	-	(23,550)
	(763,291,294)	**(599,628,080)**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 39). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Refer to note 12 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2016, 5419 (2015: 2521) debtors had active outstanding arrangements to the value of R49 238 983 (2015: R9 655 381). The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

15. Cash and cash equivalents (continued)

Cash on hand	74,657	70,657
Bank balances	223,016,738	63,282,030
Short-term deposits	2,152,490,316	2,137,188,521
	2,375,581,711	**2,200,541,208**

Allocation of external investments (short-term deposits)		
BCMET	517,356	585,857
Own funding (operating account commitments)	2,150,646,746	2,135,338,626
Total short- term deposits	**2,151,164,102**	**2,135,924,483**

Short-term deposits per institution		
ABSA (interest range 5.25% - 6.35% : 2015 5.25%)	522,580,804	438,665,788
Nedbank (interest range 5.25% - 6.50% : 2015 5.25%)	541,602,013	562,277,133
RMB (interest range 5.25% - 6.25% : 2015 5.25%)	544,776,577	569,115,393
Standard Bank (interest range 5.25% - 6.50% : 2015 5.25%)	382,711,280	366,942,601
Stanlib (interest range 6.49% - 7.25% : 2015 5.25% - 6.35%	159,493,428	198,923,568
	2,151,164,102	**2,135,924,483**

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash.

No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

A cession by the Municipality in respect of the Department of Labour for COID amounts to R9 065 915 (2015: R8 712 397).

African Bank (ABIL) suffered a collapse which exposed the investment portfolio held with STANLIB to a loss amounting to R34 049 which was written-off againt Impairment loss on Investments during the 14/15 financial year. This amount is reflected on the face of the Statement of Financial Performance.

The entity had the following bank accounts:

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
ABSA BANK - Primary Account - 408-009-0281	330,845,799	263,731,647	200,829,915	218,683,291	57,302,876	192,856,753
ABSA BANK - Prism Account - 408-009-0574	-	-	-	2,766,391	4,734,549	4,290,026
ABSA BANK - Market Account - 408-009-0639	2,045,983	2,978,166	108,809	1,211,793	764,783	371,570
ABSA BANK - Unpaid Account - 408-009-0697	8,243	-	33,668	-	-	-
First National Bank Ltd - Cheque Account - 620-9871-7899	355,302	479,822	480,473	355,302	479,822	480,473
First National Bank Ltd - Project Cheque Account - 625-1293-9267	(39)	-	-	(39)	-	-
Total	**333,255,288**	**267,189,635**	**201,452,865**	**223,016,738**	**63,282,030**	**197,998,822**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

16. Revaluation reserve

		2016	2015
Opening balance		4,622,680,892	4,236,662,872
Change during the year		(8,740,052)	386,018,020
		4,613,940,840	**4,622,680,892**

Prior period errors	**50**		
Balance previously reported		-	4,236,662,872
Adjusted-Note 50		-	(729,373)
Revaluation of wastwater network - SoCNA		-	386,747,393
Restated		**-**	**4,622,680,892**

17. Finance lease obligation

	2016	2015
Minimum lease payments due		
- within one year	-	3,193,893
- in second to fifth year inclusive	-	809,307
	-	4,003,200
less: future finance charges	-	(497,918)
Present value of minimum lease payments	**-**	**3,505,282**

	2016	2015
Present value of minimum lease payments due		
- within one year	-	2,738,106
- in second to fifth year inclusive	-	767,176
	-	**3,505,282**

	2016	2015
Non-current liabilities	-	767,176
Current liabilities	-	2,738,106
	-	**3,505,282**

The average lease term was 3-5 years and the average effective borrowing rate was 15.16% (2015: 15.34%).

Interest rates are either fixed or variable at the contract date.

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

The entity did not default on any of the interest or capital repayments of the finance leases.

No terms and conditions of the finance leases were re-negotiated.

After the initial period the leases shall automatically be renewed on a monthly basis unless cancelled by either party.

All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased asset.

There are no restrictions imposed on the lease arrangements.

There are no sublease arrangements.

The contingent rent for the current year amounted to nil. (2015: nil).

The finance lease term came to an end in the 2015/2016 financial year.

Figures in Rand	2016	2015

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	28,839,338	412,614
Provincial grants	17,078,331	37,429,373
Other conditional grants	6,218,044	4,065,192
Agency - Land Affairs	159,130,682	149,632,049
	211,266,395	**191,539,228**

National Government	**Unspent balance 2015**	**Current years receipt**	**Transfer to revenue operating expenditure**	**Transfer revenue capital expenditure**	**Transfers / Prior period error**	**Unspent balance 2016**
Neighbourhood Development Partnership Grant (NDPG)	2,392	-	-	-	(2,392)	-
Fiancial Management Grant (FMG)	22,998	1,300,000	(1,194,000)	(102,443)	(26,313)	242
Integrated National Electrification Programme (INEP)	2,221	30,000,000	-	(10,517,229)	(1,472,412)	18,012,580
Electricity Demand: Side Management Grant (EDSM)	-	4,000,000	-	(3,997,896)	-	2,104
Urban Settlement Development Grant (USDG)	1,285	713,132,000	(98,782,659)	(576,870,134)	(37,364,204)	116,288
Expanded Public Works Programme (EPWP)	275,041	1,149,000	(1,034,388)	-	(275,041)	114,612
Intigrated City Development Grant (ICDG)	-	5,605,000	-	(4,907,883)	(168,486)	528,631
Municipal Human Settlement Capacity Grant (MHSCG)	-	9,253,000	(3,197,719)	(83,195)	(27,118)	5,944,968
Infrastructure Skills Development Grant (ISDG)	108,677	8,500,000	(4,186,054)	(88,216)	(214,491)	4,119,916
Subtotal	412,614	772,939,000	(108,394,820)	(596,566,996)	(39,550,457)	28,839,341
	412,614	**772,939,000**	**(108,394,820)**	**(596,566,996)**	**(39,550,457)**	**28,839,341**

Provincial Government	**Unspent balance 2015**	**Current years receipts**	**Transfer to revenue operating expenditure**	**Transfer to revenue capital expenditure**	**Transfers / Prior period errors**	**Unspent balance 2016**
Trasitional Grant	113,769	-	-	-	-	113,769
King William's Town: Gants Government	2,053	-	-	-	-	2,053
Energy Efficient Technology	5,588,975	-	-	-	(5,588,975)	-
European Commission	923,978	55,417	-	-	-	979,395
Gompo Survey (DVRI Hydroponics)	101,339	-	(2,807)	-	-	98,532
Upgrade Water Supply	36,209	2,191	-	-	(38,400)	-
Mdantsane Upgrade - Water & Sewerage	169,235	10,238	-	-	(179,473)	-
Human Settlement Development Grant (HSDG)	-	90,824,642	(186,937,025)	(70,224,038)	166,336,421	-
Compost Waste Management	60,640	-	-	-	-	60,640
Map Preparation & Planning	123,918	-	-	-	(123,918)	-
Gompo & Mdantsane Art Centres (DVRI Arts Centre)	30,533	-	(29,672)	-	-	861
Environmental Project John Dube	138,528	-	-	-	-	138,528

18. Unspent conditional grants and receipts (continued)

Pilot Housing Project	268,793	-	-	-	-	268,793
Reeston Development - Land Affairs	766,208	45,955	(726,501)	-	-	85,662
Premiers Fund	67,421	-	-	-	(67,421)	-
Mdantsane Urban Renewal Project (Mount Ruth Node)	9,072,876	544,238	-	-	-	9,617,114
Ikhwezi Block 1 Development	175,288	-	-	-	-	175,288
Mdantsane Upgrade - MD/PD : Area Planning	210,562	-	-	-	(210,562)	-
Mdantsane Upgrade - PD: Survey	10,660	-	-	-	(10,660)	-
Mdantsane Upgrade - MD Assessment Study	189,165	-	-	-	-	189,165
Planning and Map Preparation	132,981	-	-	-	(132,981)	-
Upgrade Kwaklifu Settlement - Phakamisa	677	-	-	-	(677)	-
Needscamp Planning	937,253	-	-	-	-	937,253
Potsdam Village - Planning Survey & Upgrade	9,416	-	-	-	(9,416)	-
Ilitha Informal Settlement Upgrade	57,627	-	-	-	(57,627)	-
Kwa Tshatshu Settlement Upgrade	65,049	-	-	-	(65,049)	-
Mdantsane Human Settlement Program	78,444	-	-	-	(78,444)	-
Planning Kanana Settlement	24,350	-	-	-	(24,350)	-
Kwa Tshatshu Survey	20,008	-	-	-	(20,008)	-
Mahlangu Village : Planning and Survey	19,308	-	-	-	(19,308)	-
Phakamisa Clifton Phase 2 : Bongweni : Planning and Survey	115,477	-	-	-	(115,477)	-
Health Management System	176,266	-	-	-	(176,266)	-
Aids Training and Informal Centre (ATIC)	7,888,782	-	-	-	(7,888,782)	-
Yellowwood-Kei Road Survey	679,310	-	-	-	(679,310)	-
Yellowwood-Kei Road Town Planning	587,942	-	-	-	(587,942)	-
Department of Sports, Recreation, Arts and Culture (DSRAC)	8,014,208	-	-	(3,602,930)	-	4,411,278
Local Government & Traditional Affairs Funding	261,565	-	-	-	(261,565)	-
Informal Settlement Upgrading Study	310,563	-	-	-	(310,563)	-
	37,429,376	**91,482,681**	**(187,696,005)**	**(73,826,968)**	**149,689,247**	**17,078,331**

Other conditional grants	**Uspent balance 2015**	**Current years receipts**	**Transfer to revenue operating expenditure**	**Transfer to revenue capital expenditure**	**Transfers / Prior period error**	**Unspent balance 2016**
Amatole District Municipality Funding (ADM)	1,673,270	-	-	-	-	1,673,270
Water Supply to Areas West of IDZ-Cove Rock	327,858	-	-	-	(327,858)	-
Buffalo City Metro Transport (BCMET) Funding	487,499	-	-	-	-	487,499
Public Funding	5,846,610	-	-	-	(5,846,610)	-

Notes to the Audited Consolidated Annual Financial Statements

18. Unspent conditional grants and receipts (continued)

Local Government Sector Education & Training Authority Fund (SETA)	274,716	-	-	-	(274,716)	-
Housing & Infrastructure Development Award	399,282	-	-	-	(399,282)	-
VUNA Award	1,040,066	-	-	-	-	1,040,066
Aquarium	3,917	-	-	-	(3,917)	-
Friends of East London Zoo (Felzoo)	248,025	-	-	-	-	248,025
Athletic Track	46,122	2,790	-	-	(48,912)	-
Friends of East London Aquarium (F.E.L.A)	10,148	-	-	-	(10,148)	-
SALAIDA (Gavle)	1,460,172	373,256	-	-	-	1,833,428
Community Development	2,127,846	-	-	-	(2,127,846)	-
Art Gallery	9,695	-	-	-	(9,695)	-
Municipal Revenue Enhancement Programme	1,336,512	-	-	-	(1,336,512)	-
Climate Protection Implementation	38,469	-	-	-	(38,469)	-
ADM: Township Ext 1 : Kidds Beach	70,373	-	-	-	(70,373)	-
ADM: Water Dist. Grant-Eureka	25,776	-	-	-	(25,776)	-
ADM: Special Grant-Macleantown	9,467	-	-	-	(9,467)	-
ADM: Special Grant-Ext 3: Kaysers	45,445	-	-	-	(45,445)	-
ADM: Community Hall: TRC-KWT	825	-	-	-	(825)	-
ADM: Income Generating Project: TRC-KWT	46,919	-	-	-	(46,919)	-
ADM: Commmunty Hall: TRC-EL	20,838	-	-	-	(20,838)	-
ADM: Income Generating Project: TRC-EL	52,193	-	-	-	(52,193)	-
ADM: Tribal Trust: Kwelerha	17,888	-	-	-	(17,888)	-
ADM: Tribal Trust: Nxaruni	138,901	-	-	-	(138,901)	-
A.T. Taylor	92,305	-	-	-	(92,305)	-
C.H.T. Peplar	49,032	-	-	-	(49,032)	-
Ward Committee Train-(Stiching ordaid)	591,659	-	-	-	(591,659)	-
Leiden	121,621	9,891	-	-	-	131,512
Eastern Cape Development Agency (ECDC)	67,359	-	-	-	(67,359)	-
Umsobomvu Youth Fund	307,437	15,657	(115,703)	-	-	207,391
Parking Area Development Fund (PADF Contributions: Ex Public)	1,158,306	-	-	-	(1,158,306)	-
HIV AIDS Toolkit	1,747	-	-	-	(1,747)	-
Glasgow Partnership	89,858	-	-	-	-	89,858
City of Oldenburg	-	506,995	-	-	-	506,995
Centre for Municipal Research & Advice	2,416	-	-	-	(2,416)	-
	18,240,572	**908,589**	**(115,703)**	**-**	**(12,815,414)**	**6,218,044**

Land Affairs	Unspent Balance 2015	Current years receipts	Transfer to revenue operating expenditure	Transfer revenue capital expenditure	Transfers / Prior period error	Unspent balance 2016
Land Affairs	79,778,598	5,234,793	-	-	-	85,013,391
Land Affairs - East Bank	69,853,451	4,263,839	-	-	-	74,117,290
	149,632,049	**9,498,632**	**-**	**-**	**-**	**159,130,681**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

18. Unspent conditional grants and receipts (continued)

Analysis of Transfers			
Correction of error		-	(14,175,381)
Accrued		-	157,066,816
Transferred to National Revenue Fund		-	(409,108)
Transfer back to Grantor		-	(6,017,600)
USDG Roll-over		-	42,403,407
Reclaim VAT		-	(81,544,758)
Total transfers		**-**	**97,323,376**
Prior period errors	**50**		
Balance previously reported		-	205,714,609
Adjusted-Note 50		-	(14,175,381)
Restated		**-**	**191,539,228**

19. Borrowings

Held at amortised cost		
Annuity loans	496,476,706	542,573,900
Non-current liabilities		
At amortised cost	445,767,675	496,476,706
Current liabilities		
At amortised cost	50,709,031	46,097,194

The entity did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the borrowings were re-negotiated.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

20. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Adjustment	Total
Landfill Sites	176,667,653	8,417,824	185,085,477

Reconciliation of provisions - 2015

	Opening Balance	Adjustment	Total
Landfill Sites	184,141,541	(7,473,888)	176,667,653

	2016	2015
Non-current liabilities	10,222,692	10,433,259
Current liabilities	174,862,785	166,234,394
	185,085,477	**176,667,653**

With regards to the Provision for Landfill sites it is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoil, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:
- Interest rate used is BCMM's borrowing rate at 10.17% (2015: 10.16%).

- The valuation for the landfill site provision in 2016 was done by Munitech (Pty) Ltd, a company which specialises in infrastructure maintenance and operations and municipal services, which includes solid waste collection and disposal. The company registration number is 1988/761/07 and the SAACE membership number is 439.

The expense relating to the provision is included under note 42: General Expenses - Other expenses.

The 2016 adjustment of R8 417 824 relates to an increase in the rehabilitation of landfill sites provision.

21. Financial assets by category

2016

		Financial assets at amortised cost	Total
Trade and other receivables from exchange transactions	14	364,776,628	364,776,628
Other receivables from non-exchange transactions	12	695,008,017	695,008,017
Cash and cash equivalents	15	2,375,581,711	2,375,581,711
VAT receivable	13	96,847,762	96,847,762
		3,532,214,118	**3,532,214,118**

2015

		Financial assets at amortised cost	Total
Long-term receivables: Other financial assets	8	26,992	26,992
Trade and other receivables from exchange transactions	14	320,652,236	320,652,236
Other receivables from non-exchange transactions	12	372,023,403	372,023,403
Cash and cash equivalents	15	2,200,541,208	2,200,541,208
VAT receivable	13	83,018,326	83,018,326
		2,976,262,165	**2,976,262,165**

		2016	2015
Prior period errors - other receivables	**50**		
Balance previously reported		-	374,124,867
Adjusted - Note 50		-	(2,101,464)
Restated		**-**	**372,023,403**

Figures in Rand	2016	2015

22. Financial liabilities by category

2016		Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	24	69,198,736	-	69,198,736
Payments received in advance	24	97,411,237	-	97,411,237
Borrowings: Other financial liabilities	19	496,476,706	-	496,476,706
Trade and other payables	24	759,861,394	-	759,861,394
Consumer deposits	26	-	53,708,070	53,708,070
Other deposits	24	-	5,958,645	5,958,645
Unspent conditional grants	18	211,266,395	-	211,266,395
		1,634,214,468	**59,666,715**	**1,693,881,183**

2015		Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	24	61,322,806	-	61,322,806
Payments received in advance	24	101,785,623	-	101,785,623
Borrowings: Other financial liabilities	19	542,573,900	-	542,573,900
Trade and other payables	24	435,192,104	-	435,192,104
Consumer deposits	26	-	48,504,722	48,504,722
Other deposits	24	-	5,617,590	5,617,590
Unspent conditional grants	18	191,539,228	-	191,539,228
Other financial liabilities	23	100,000	-	100,000
		1,332,513,661	**54,122,312**	**1,386,635,973**

	Note	2016	2015
Prior period errors - Trade and other payables	**50**		
Balance previously reported		-	366,481,470
Adjusted - Note 50		-	68,702,067
BCMDA-Accrued expenses re-allocated		-	(27,416)
BCMDA-Payroll Payables adjusted - Note 50		-	12,250
BCMDA-Trade payables adjusted - Note 50		-	23,735
Restated		**-**	**435,192,106**

	Note	2016	2015
Prior period errors - Unspent conditional grants	**50**		
Balance previously reported		-	205,714,609
Adjusted - Note 50		-	(14,175,381)
Restated		**-**	**191,539,228**

23. Other financial liability

Other non-current financial liabilities	2016	2015
Seaview Developers	-	50,000
Marina Glen	-	50,000
	-	**100,000**

These amounts represent refundable deposits that were paid in February 2008 for development of the Seaview Crescent and Marina Glen A. These deposits do not accumulate interest. The development have not yet taken place.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

24. Payables from exchange transactions

	2016	2015
Trade payables	556,620,060	216,153,164
Payments received in advanced	97,411,237	101,785,623
Retention monies	86,270,808	60,216,942
Market creditors	42,879	42,879
Accrued leave pay	69,198,736	61,322,806
Deposits received	5,958,645	5,617,590
Accrued expenses - BCMDA	-	27,416
Other creditors	116,645,833	158,738,470
Other payables - BCMDA	-	983
Accrued leave pay - BCMDA	79,082	-
Staff related payables - BCMDA	202,732	12,250
	932,430,012	**603,918,123**

	Note	2016	2015
Prior period errors - Other creditors	**50**		
Balance previously reported		-	90,036,403
Adjusted - Note 50		-	68,702,067
Restated		**-**	**158,738,470**

	Note	2016	2015
Prior period error - Staff related payables - BCMDA	**50**		
Adjusted - BCDA - Note 50		-	12,250

	Note	2016	2015
Prior period error - Trade payables	**50**		
Balance previously reported		-	216,129,430
Adjusted - Suppliers - BCDA - Note 50		-	23,734
Restated		**-**	**216,153,164**

25. VAT payable

	2016	2015
Tax refunds payables	527,125	169,563

	2016	2015
Prior period errors - VAT payable		
Balance previously reported	-	172,477
Adjusted - BCDA - Note 50	-	(2,915)
Restated	**-**	**169,562**

26. Consumer deposits

	2016	2015
Electricity	32,925,608	27,773,961
Water	20,782,462	20,730,761
	53,708,070	**48,504,722**

The amounts reflected represent a cost value as Management believes that the cost value approximates the fair value.

The consumer deposits are reflected at nominal value as they are utilised as part of the settlement of final consumer accounts

Guarantees held in lieu of Electricity and Water deposits amounted to R17 953 375 (2015: R18 677 096)

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

27. Revenue

Service charges	2,749,647,841	2,424,752,656
Rental of facilities and equipment	16,583,409	17,430,173
Licences and permits	12,611,825	14,034,279
Total other income - refer note 29	262,324,403	228,470,463
Interest received - investment	187,436,207	159,221,294
Property rates	865,234,826	794,518,847
Government grants & subsidies	1,634,064,239	1,564,005,750
Public contributions and donations - PPE	-	3,410,514
Fines	5,593,754	5,499,648
Fuel levy	370,461,000	361,639,000
	6,103,957,504	**5,572,982,624**

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

Service charges	2,749,647,841	2,424,752,656
Rental of facilities and equipment	16,583,409	17,430,173
Licences and permits	12,611,825	14,034,279
Total other income - refer note 29	262,324,403	228,470,463
Interest received - investment	187,436,207	159,221,294
	3,228,603,685	**2,843,908,865**

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

Taxation revenue		
Property rates	865,234,826	794,518,847
Transfer revenue		
Government grants & subsidies	1,634,064,239	1,564,005,750
Public contributions and donations - PPE	-	3,410,514
Fines	5,593,754	5,499,648
Fuel levy	370,461,000	361,639,000
	2,875,353,819	**2,729,073,759**

Traffic fines are made up as follows:

Traffic fines movement	(846,087)	764,987
Revenue received	6,260,885	4,595,498
Revenue raised	**5,414,798**	**5,360,485**

Total fines outstanding at 30 June 2016 is R 44 177 468 after eliminating untraceable and collected fines. A probability factor of 30% (33% : 2015) collection of total outstanding fines was calculated which amounted to R 13 084 667 (R 13 930 753 : 2015). Refer note 12.

The lifespan of traffic fines is as follows:

- Traffic offences in respect of which the admission of guilt amount is below R500: one year from date of issue of the warrant.
- Traffic offences in respect of which the admission of guilt amount is from R500 up to the maximum amount that may be determined by a peace officer in terms of section 56(1) of Act 51 of 1977: two years from the date of issue of the warrant.

The above arrangement also applies in traffic cases where a notice in terms of section 341 of Act 1977 is followed up by a summons setting admission of guilt up to the above maximum amount.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

28. Service charges

Sale of electricity	1,694,297,411	1,465,814,133
Sale of water	425,275,744	394,281,598
Sewerage and sanitation charges	298,552,050	278,831,681
Refuse removal	287,400,358	261,806,838
Other service charges	44,122,278	24,018,406
	2,749,647,841	**2,424,752,656**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

29. Other revenue

Admission fees	3,121,970	2,648,886
Town planning and sub-division fees	1,611,805	1,893,822
Cemetery fees	8,162,091	6,880,758
Cold storage fees	642,560	709,412
Commission	20,487,565	18,083,876
Coupons and clip tickets	563,000	647,970
Dog tax and penalties	756,049	703,072
Fire brigade	82,866	565,110
Fire levy charges	68,230,867	58,358,226
Grazing fees	52,086	54,857
Hire charges	35,410	21,328
Insurance	1,994,618	5,140,458
Library	10,997	17,814
Meter test fees	5,166	30,934
Photocopies	86,769	83,131
Plan approval fees	7,292,038	6,173,843
Private works	3,375,534	3,918,697
Sale of plants and animals	7,914	8,126
Scrap	3,365,912	3,113,518
Service connections and reconnections	30,094,190	22,848,208
Street frontage and administration fees	331,454	396,720
Other income - BCDA	100,000	-
Sundry income	85,834,744	64,394,164
Tender receipts	709,556	376,479
Towing fees	42,311	59,182
Vehicle registrations	25,326,931	31,341,872
	262,324,403	**228,470,463**

Reclassification - Admission fees			
Balance previously reported		-	2,614,434
Merged - Levy on gates		-	34,452
Restated balance		**-**	**2,648,886**
Reclassification - Street frontage and administration fees			
Balance previously reported		-	350,501
Merged - Administration fees		-	46,219
Restated balance		**-**	**396,720**
Reclassification - Town planning and sub-division fees			
Balance previously reported		-	42,974
Merged - Sub-division fees		-	1,850,849
Restated balance		**-**	**1,893,823**
Reclassifiaction - Sundry income			
Balance previously reported		-	57,387,407
Merged - Parking meters		-	1,841
Adjusted - Note 50		-	7,004,915
Retstated balance		**-**	**64,394,163**
Prior period errors - Other revenue	**50**		
Balance previously reported		-	221,465,548
Adjusted - Note 50		-	7,004,915
Restated		**-**	**228,470,463**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

30. Interest Received

Interest revenue		
Call accounts with financial institutions	139,600,894	111,675,176
Bank	15,173,986	12,547,124
Interest charged on trade and other receivables	32,659,977	34,993,173
Interest on sporting body loans	1,350	5,821
	187,436,207	**159,221,294**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

31. Property rates

Rates received

Residential	445,225,837	352,831,669
Commercial	348,708,983	359,231,227
Municipal	12,028,828	23,539
Public Benefit Organisation	105,121	56,779
Educational	10,517,275	9,796,001
Agricultural	6,625,913	6,194,688
Public Service Infrastructure	1,503,327	1,606,014
Vacant land	74,258,783	87,976,727
Less: Income forgone	(33,739,241)	(23,197,797)
	865,234,826	**794,518,847**

Valuations

Residential	47,221,502,150	46,111,809,700
Commercial	17,292,255,490	17,470,636,500
Public Benefit Organisation	55,733,000	27,616,000
Municipal	9,396,000	2,592,000
Rural Communal Land	2,985,019,500	3,120,430,661
Educational	1,644,051,000	1,701,580,800
Agricultural	2,932,267,840	3,012,980,400
Public Service Infrastructure	665,190,100	781,134,980
Vacant Land	3,359,565,400	3,565,564,000
	76,164,980,480	**75,794,345,041**

The Buffalo City Metropolitan Municipality is required, in terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings every 4 years and a supplementary valuation at least once a year. The second valuation in terms of MPRA was done in 2013 and the implementation date is 1 July 2014. The valuation date is 1 July 2013.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2016. Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

Tarifffs levied R/cents		
Agricultural	0.002260	0.002056
Business	0.022597	0.020562
Educational	0.006327	0.005757
Public Service Infrastructure	0.002260	0.002056
Residential	0.009039	0.008225
Vacant Land	0.027117	0.024674
Public Benefit Organisations	0.002260	0.002056
Municipal Non-rateable	0.000001	0.000001
Municipal Residential	0.009039	0.008225
Municipal Business	0.022597	0.020562
Municipal Educational	0.006327	0.005757
Rural Communal Land	0.000001	0.000001
Specialized	0.000001	0.000001

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

31. Property rates (continued)

Buffalo City Metropolitan Municipality grants rebates, in terms of the Municipality's rates policy to the following category of owners:

1) Newly developed commercial/Industrial properties with a value of R50 000 000 or above.

The rebate will be phased in over a period of 5 years, from the effective date of the valuation of the improvements in the municipality's valuation roll as follows

Year 1 - 50%
Year 2 - 40%
Year 3 - 30%
Year 4 - 20%
Year 5 - 10%, thereafter, full rates will be payable.

2) A rebate/discount of up to 75%, where the Municipality does not supply some or all of the following services:

	2016	2015
Constructed public roads	15%	15%
Water supply	22%	22%
Refuse removal service	8%	8%
Electricity supply	15%	15%
Sewerage service	15%	15%
	75%	**75%**

3) A rebate to senior citizens if they meet certain requirements.

Senior citizens from 60 years and above qualify for up to 100% depending on their income level allocated as follows:

Gross monthly income Rand	**Rebate**
0 - 3000	100%
3001 - 4500	85%
4501 - 6000	70%
6001 - 7500	55%
7501 - 9000	40%
9001 - 10500	25%

4) Public Benefit Organisations (ex Grant in Aid in lieu of rates recipients) are granted rebates on application.

5) Section 17 of the MPRA lists other impermissible rates, where a entity may not levy a rate and the following were applied in the 2015/16 financial year:

Section 17(1)(a) - First 30% of the market value of public service infrastructure.
Section 17(1)(h) - R15 000 on market value of residential properties.
Section 17(1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

32. Grants and subsidies paid

Grants-in-Aid		
Buffalo City Tourism	-	14,999
Buffalo City Metropolitan Development Agency / Buffalo City Development Agency	615,156	230,640
Mayoral Social Responsibility	1,892,322	463,202
Publicity Association Grant	-	5,930,121
Sponsored Sporting Events	16,089,565	19,730,568
Social Welfare Grant (Poor relief)	217,368,077	203,542,139
Subsidies-Churches,sport and other welfare organisations	-	3,022,612
Other Organisations	1,356,028	1,216,328
	237,321,148	**234,150,609**

During the 2015/16 financial year all applications for rates relief from Public Benefit Organisations are recorded as a rebate. In the 2014/15 financial year these applications were recorded as Grants in Lieu of rates.

33. Government grants and subsidies

Operating grants		
Government grants - operating projects	296,206,528	93,852,534
Other Government grants and subsidies	667,087,623	660,277,244
Government grants - housing projects	376,124	194,383,699
	963,670,275	**948,513,477**
Capital grants		
Government grant (capital: PPE)	670,393,964	615,492,273
	1,634,064,239	**1,564,005,750**

Prior period errors - other subsidies	**50**		
Balance previously reported		-	660,002,528
Adjusted - Note 50		-	274,716
Restated		**-**	**660,277,244**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

34. Employee related costs

Basic emoluments		796,426,964	750,661,859
Medical aid contributions		60,380,792	52,912,912
UIF		7,893,395	7,475,875
Leave pay contributions		34,713,638	29,230,388
Pension fund contributions		139,558,575	127,907,120
Overtime payments		132,481,396	107,200,176
Long-service awards		18,113,196	16,269,660
13th Cheques		61,328,649	57,181,842
Car allowance		22,134,428	20,473,104
Housing benefits and allowances		11,859,433	3,507,535
Group life		6,032,600	5,733,497
Other allowances		61,277,553	54,741,228
Job evaluation settlement agreement		-	10,200
		1,352,200,619	**1,233,305,396**

Reclassification - Remuneration to ward committees			
Balance previously reported total basic emoluments		-	709,687,300
Re-allocated to general expenses	42	-	(7,737,854)
Restated		**-**	**701,949,446**

Prior period errors - Basic emoluments	**50**		
Balance previously reported		-	701,949,446
Adjusted - Note 50		-	48,712,412
Restated		**-**	**750,661,858**

Remuneration of City Manager

Remuneration	1,145,632	1,095,250
Travel Allowance	180,000	180,000
Allowance	358,572	334,809
UIF	1,785	1,785
Contributions to Medical and Pension Funds	223,398	213,574
	1,909,387	**1,825,418**

Remuneration of Chief Finance Officer

Remuneration	954,693	912,709
Travel Allowance	288,000	288,000
Allowance	100,529	85,172
UIF	1,785	1,785
Medical Aid	42,239	38,448
Pension Contributions	186,165	177,978
Group Life	17,745	17,090
	1,591,156	**1,521,182**

Remuneration of HOD: Executive Support Services

Remuneration	910,643	220,498
Housing Subsidy	1,090	2,180
Travel Allowance	222,114	69,121
Allowance	230,273	25,434
UIF	1,785	595
Medical Aid	21,092	6,842
Pension Contributions	180,255	39,888

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

34. Employee related costs (continued)

Group Life	11,737	2,938
	1,578,989	**367,496**

The position was filled on 01 March 2015.

Remuneration of HOD: Human Settlements

The position was vacant for 2015/16.

In 2014/15 the position was Chief Operations Officer and in 2015/16 was changed to HOD: Human Settlements

If the position was filled for the entire financial year the remuneration would have amounted to R1 578 989. Acting allowance to the value of R142 941 was paid in the 2015/16 financial year in respect of the vacant HOD: Human Settlements position.

Remuneration of HOD: Corporate Services

Annual Remuneration	910,643	220,498
Travel Allowance	320,000	-
Allowances	125,924	108,227
UIF	1,785	595
Medical Aid	25,146	5,929
Pension Contributions	195,491	32,248
	1,578,989	**367,497**

The position was filled on 01 March 2015.

Remuneration HOD: Health and Public Safety

The position was vacant for 2015/16.

If the position was filled for the entire financial year the remuneration would have amounted to R1 578 989. Acting allowance to the value of R106 994 was paid in the 2015/16 financial year in respect of the vacant HOD: Health and Public Safety position.

Remuneration of HOD: Infrastructure Services

Annual Remuneration	947,393	801,323
Travel Allowance	168,000	154,000
Allowance	246,555	179,194
UIF	1,785	1,636
Medical Aid	18,320	16,531
Pension Contributions	184,742	149,464
Group Life	12,194	10,164
	1,578,989	**1,312,312**

Remuneration of HOD: Development and Spatial Planning

Annual Remuneration	947,393	836,163
Travel Allowance	192,000	64,000
Allowance	215,913	417,308
UIF	1,785	1,785
Medical Aid	29,027	26,194
Pension Contributions	184,742	40,763
Group Life	8,130	7,392

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

34. Employee related costs (continued)

	1,578,990	**1,393,605**

Remuneration of HOD: Municipal Services

The position was vacant for 2015/16.

If the position was filled for the entire financial year the remuneration would have amounted to R1 578 989. Acting allowance to the value of R285 603 was paid in the 2015/16 financial year in respect of the vacant HOD: Municipal Services position.

Remuneration of HOD: Economic Development & Agencies

This is a new position.

Guarantees by the entity in respect of commercial bank housing loans for officials amount to R74 400 (2015: R105 400).

BCMDA - Remuneration of Chief Executive Officer- Appointed 01 November 2015

Annual Remuneration	905,477	-
Car Allowance	160,000	-
Contributions to UIF, Medical and Pension Funds	1,190	-
	1,066,667	**-**

BCMDA - Remuneration of Chief Financial Officer- Appointed 18 April 2016

Annual Remuneration	207,272	-
Car Allowance	24,333	-
Contributions to UIF, Medical and Pension Funds	446	-
	232,051	**-**

BCMDA - Remuneration of Company Secretary/Legal Advisor- Appointed 01 June 2016

Annual Remuneration	71,622	-
Contributions to UIF, Medical and Pension Funds	149	-
	71,771	**-**

BCMDA - Corporate and human resources - Appointed 01 June 2016

Annual Remuneration	68,605	-
Car Allowance	15,000	-
Contributions to UIF, Medical and Pension Funds	149	-
	83,754	**-**

BCMDA - Employee related costs do not have comparative figures as the agency was re-established through the appointment of the Board in February 2014 and subsequent appointment of the Chief Executive Officer in November 2015 and other vacant positions were filled during the course of 2015/16 financial year.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

35. Remuneration of councillors

	2016	2015
Executive Mayor (2015: appointed on 09 June 2015)	745,445	678,810
Deputy Mayor (2015: appointed on 09 June 2015)	602,036	544,791
Mayoral Committee Members	4,993,958	4,635,216
Speaker	602,036	546,425
Councillors	23,899,021	22,929,385
Councillors' pension contribution	3,306,271	3,046,769
Councillors housing subsidy	2,846,951	2,514,804
Councillors medical aid	1,783,219	1,539,291
Travel allowance	14,910,068	11,246,697
BCMDA - Board members	686,301	677,449
	54,375,306	**48,359,637**

BCMDA - Board members		
Bonakele T	220,913	85,247
Kondlo S	114,000	105,059
Ncwaiba V	165,430	133,714
Sangqu C	123,484	119,358
Zitumane V	58,500	234,071
	682,327	**677,449**

Prior period error - BCMDA Board members	**50**		
Balance previously reported		-	665,199
Adjusted - BCDA		-	12,250
Restated		**-**	**677,449**

In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R12 296 778 (2015: R6 880 131).

The House Keeper's cost to Council amounts to R41 477 (2015: R118 079).

The Executive Mayor, Deputy Mayor and Speaker each have the use of a Council owned vehicle for official duties. Operating costs of the vehicles amount to R23 216 (2015: R141 697). Repairs to the Speakers vehicle amounted to R23 603. An amount of R2 170 105 (2015: R2 515 396) was incurred for hired vehicles.

The Executive Mayor, Deputy Mayor and Speaker each have full-time bodyguards. Cost of 9 bodyguards amounts to R4 459 483 (2015: 17 bodyguards R7 631 123).

36. Repairs and maintenance

	2016	2015
Repairs and maintenance	350,105,699	287,392,606

Prior period error	**50**		
Balance previously reported		-	284,054,233
Adjusted - Note 50		-	3,338,373
Restated		**-**	**287,392,606**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

37. Depreciation and amortisation

Property, plant and equipment		780,643,387	682,269,384
Intangible assets - amortisation (Refer note 5)		9,167,844	2,561,577
		789,811,231	**684,830,961**

Prior period errors - PPE	**50**		
Balance previously reported		-	728,984,376
Adjusted - Note 50		-	(46,714,992)
Restated		**-**	**682,269,384**

Prior period errors - Intangible assets	**50**		
Balance previously reported		-	390,629
Adjusted - Note 46		-	2,170,948
Restated		**-**	**2,561,577**

Prior period errors - Summary	**50**		
Balance previously reported		-	729,375,005
Adjusted - Note 46		-	(44,544,044)
Restated		**-**	**684,830,961**

38. Finance costs

Non-current borrowings	54,877,713	60,674,266

39. Debt impairment

Contributions to debt impairment allowance account	210,111,414	365,110,172

40. Bulk purchases

Electricity	1,241,905,006	1,043,185,522
Water	185,412,747	170,456,251
	1,427,317,753	**1,213,641,773**

41. Contracted services

In 2016 in terms of the implementation of mSCOA, all expenditure has been disclosed in the financial statements in terms of their nature, relevant to the new mSCOA classification structures. As a result, there is no expenditure that has been separately included under the line item "Contract services", but rather under the various expenditure line items in the Statement of Financial Performance in terms of their GRAP nature.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand		2016	2015

42. General expenses

	2016	2015
Accounting fees	99,965	85,965
Advertising	4,086,427	2,787,216
Assessment rates & municipal charges	107,892,740	76,706,338
Auditors remuneration	13,147,855	12,868,232
Bank charges	5,170,129	6,329,630
Chemicals	13,214,476	12,279,070
Cleaning	4,284,022	4,241,602
Commission paid	18,824,508	17,030,075
Conferences and seminars	5,226,046	5,388,405
Consulting and professional fees	27,363,747	26,790,545
Consumables	7,531,096	5,909,720
Disconnections	9,915,533	9,667,756
Entertainment	3,635,455	2,335,533
Essential user cost	20,203,145	16,931,536
Lease rentals on operating lease	62,654,608	62,523,932
Remuneration to Ward Committees	5,034,000	7,737,854
Placement fees	56,275	-
Fines and penalties	25,548	12,887
Fuel and oil	35,011,436	38,273,910
Hire (labour and plant)	422,597	3,146,895
IT expenses	25,936,296	12,327,511
Insurance	19,648,844	20,849,733
Levies	17,292,620	20,587,099
Magazines, books and periodicals	396,428	632,153
Marketing	4,974,837	1,794,050
Motor vehicle expenses	3,574,619	4,822,923
Other expenses	50,590,442	64,107,192
Post-retirement medical obligation net cost	18,659,910	105,013,797
Postage and courier	5,357,777	5,817,320
Printing and stationery	5,760,753	5,666,913
Projects	414,836,457	369,973,667
Promotions	148,072	190,590
License fees	3,794,204	8,514,790
Security (Guarding of municipal property)	846,061	444,380
Special events	8,200,517	5,706,830
Subscriptions and membership fees	12,251,725	11,098,046
Telecommunication costs (telephones, faxes and cell phones)	19,385,130	23,028,770
Title deed search fees	41,960	26,700
Training	13,218,280	3,488,352
Travel - local	10,663,324	9,612,718
Travel - overseas	1,619,960	1,718,090
Uniforms	7,316,484	7,143,405
	988,314,308	**993,612,130**

Reclassification - Remuneration to ward committees			
Balance previously reported total general expenses		-	971,872,848
Re-allocated from basic emoluments	34	-	7,737,854
Restated		**-**	**979,610,702**

Prior period errors	**50**		
Balance previously reported		-	994,217,555
Adjusted - Note 50		-	(626,247)
Adjusted - BCDA - Note 50		-	20,820
Restated		**-**	**993,612,128**

Figures in Rand		2016	2015

42. General expenses (continued)

In 2016 in terms of the implementation of mSCOA, expenditure has been disclosed in the financial statements in terms of their nature, relevant to the new mSCOA classification structures. As a result thereof, expenditure in the amount of R14 606 853 that was previously disclosed under a separate note "Contracted services" in respect of 2015 has now been reallocated under the following general expenditure categories:

- Entertainment	R 3 391
- Hire (labour and plant)	R 2 923 916
- Marketing	R 1 355 950
- Other expenses	R10 215 146
- Uniforms	R 108 450
Total	R14 606 853

	Note	2016	2015
Reclassification - Assessment rates & municipal charges			
Balance previously reported		-	353,691
Merged - Electricity		-	52,861,194
Merged - Refuse		-	11,115,629
Merged - Water		-	12,375,824
Restated balance		**-**	**76,706,338**
Reclassification - Projects			
Merged - BCMET		-	135,125
Merged - DWAF		-	5,302,871
Merged - Operating and housing projects ex grants		-	263,279,958
Merged - Projects ex surplus and other		-	76,882,177
Transferred from Other expenses		-	24,999,783
Restated balance		**-**	**370,599,914**
Reclassification - IT expenses			
Balance previously reported		-	3,424,713
Merged - Computer expenses		-	7,941,136
Merged - Software expenses		-	961,662
Restated balance		**-**	**12,327,511**
Reclassification - Special events			
Balance previously reported		-	2,190,570
Transferred from other expenses		-	3,516,260
Restated balance		**-**	**5,706,830**
Reclassification - Conferences and seminars			
Balance previoulsy reported		-	2,712,792
Transferred from other expenses		-	2,664,648
Restated balance		**-**	**5,377,440**
Reclassification - Training			
Balance previoulsy reported		-	2,765,093
Transferred from other expenses		-	723,259
Restated balance		**-**	**3,488,352**
Prior period error - Consulting fees	**50**		
Balance previously reported		-	26,769,725
Adjusted - BCDA - Note 50		-	20,820
Restated		**-**	**26,790,545**

Figures in Rand		2016	2015

43. Fair value adjustments and discounting of receivables and payables

Other financial assets			
• Other financial assets (Designated as at FV through P&L		13,727,929	(4,909,235)

In terms of GRAP 104 Paragraph AG 87 the initial period granted for short-term payables and receivables is 30 days. As the normal municipal receivables and payables terms are within 30 days and is consistent with established practice and legislation, no discounting needs to be performed.

44. Auditor General remuneration

Audit fees		13,147,855	12,868,232

45. Cash generated from operations

Surplus		684,133,176	369,505,277
Non cash movements:			
Depreciation and amortisation	37	789,811,231	684,830,961
Loss / (gain) on sale of assets and liabilities	4	(499,569)	32,772,122
Share of profit of associate	7	(30,383,365)	(22,359,440)
Fair value adjustment on Investment property revalued	43	(13,727,929)	4,909,235
Impairment deficit	4	-	504,750
Debt impairment	39	210,111,414	365,110,172
Movements in operating leases	9	(2,929,997)	(2,573,654)
Movements in post retirement medical aid benefit obligation	10	1,692,983	89,348,202
Movements in provisions relating to landfill sites	20	8,417,824	(7,473,888)
Adjustments in SoCNA on accumulated surplus	4	-	7,659,232
Non-cash and adjustments on PPE	4	(8,142,771)	(20,460,681)
Movement in operating lease liability	9	92,989	-
Revaluation on PPE	4	-	15,764,840
Revaluation recognized in SoCNA	16	(8,740,052)	436,826,309
Impairment	4	-	(34,040)
Opening balance adjustment on PPE 2015	4	-	(389,360,547)
Opening balance adjustment on Intangible assets 2015	5	-	1,088,030
Depreciation adjustment	4	(1,158,832)	(1,051,645)
Changes in working capital:			
Inventories	11	8,848,174	5,719,579
Movement in Receivables from exchange transactions	14	(254,235,806)	(309,829,240)
Other receivables from non-exchange transactions	12	(322,984,614)	(170,586,935)
Payables from exchange transactions	24	328,511,889	(37,607,467)
Movement in VAT receivables	13	(13,829,436)	(17,450,056)
Movement in VAT payable	25	357,562	28,043
Unspent conditional grants and receipts	18	19,727,167	(22,178,515)
		1,395,072,038	**1,013,100,644**

Adjustments in SoCNA		
Adjustment in opening balance prior to 2015	-	2,910,798
Aquarium animals adjustment	-	40,181
Zoo animals adjustment	-	328,985
Take-on movable assets	-	6,206,798
Take-on	-	369,240
Take-on adjusted	-	(2,196,770)
	-	**7,659,232**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

46. Current tax payable

Balance at beginning of the year	(247,682)	(247,682)

Prior period error - Current tax payable		
Balance previously reported	-	(265,227)
Adjusted - Note 50	-	17,546
Restated	**-**	**(247,681)**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

47. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment		
• Community (including housing)	341,865,869	637,068,861
• Infrastructure	775,851,410	408,263,755
• Other	23,022,899	13,529,942
	1,140,740,178	**1,058,862,558**

Prior Year Adjustments		
Previously disclosed 2014/15 annual financial year	-	1,398,307,872
Revised disclosure 2014/15 annual financial year	-	1,058,862,558
	-	**339,445,314**

Previously disclosed 2014/15 annual financial year		
Community (including housing)	-	668,844,677
Infrastructure	-	676,749,553
Other	-	52,713,642
	-	**1,398,307,872**

Authorised operational expenditure

Already contracted for but not provided for		
• Operating lease - Premises	491,847	-
• Operating lease - IT equipment	124,673	-
• Email and website development and design	129,139	-
• Procurement of financial management system	528,659	-
	1,274,318	**-**

Total operational commitments		
Already contracted for but not provided for	1,274,318	-

This committed expenditure relates to rental of photocopier,office space,procurement of internet services and the financial management system and will be financed by available bank facilities arising from funding received from Buffalo City Metropolitan Municipality.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	5,043,710	9,811,302
- in second to fifth year inclusive	5,907,164	7,685,056
	10,950,874	**17,496,358**

Operating lease payments represent rentals payable by the entity for certain of its office properties and a multipurpose printer/copier. Leases are negotiated for an average term of five years and rental increases escalates between 0% and 12% annually.

No contingent rent is payable.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

48. Contingent liabilities

Litigation issues		
Claims have been instituted against Council due to alleged assault and defamation. Legal advice has been sought and Council will defend the claim.	300,000	400,000
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims. Two matters disclosed in the 2014/2015 financial year totalling R165,139 were finalised (Intengu Communications // BCMM and Arrow Trade t/a Auto Hire // BCMM). There were two new matters disclosed in the 2015/2016 financial year totalling R1,020,667 which were received in the 2015/2016 financial year which resulted in the increase in value.	5,518,503	4,662,975
A claim has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCMM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCMM of the contractor tendering or being awarded the contract (Date of incident August 2008 and summons received by BCMM November 2010).	1,563,415	1,563,415
A claim has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council (Date of incident August 2009 and summons received by BCMM June 2011).	1,382,118	1,382,118
A claim has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance (Summons received by BCMM November 2007).	9,780,185	9,780,185
A claim has been instituted against Council by Tshiki & Sons Inc. seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident September 2011 and letter of demand received by BCMM June 2014).	11,993,894	11,993,894
A claim has been instituted against Council by Nurcha Development & Tusk Construction for alleged breach of contract (Cession agreement signed by the Contractor New Boss CC) (Date of incident June 2011 and summons received by BCMM January 2012).	7,261,174	7,261,174
A claim has been instituted against Council by Mkwanazi Construction (Pty) Ltd claiming for damages arising from alleged delays and disruptions in the construction project (Date of incident October 2011 and summons received by BCMM April 2012).	36,861,290	36,861,290
A claim has been instituted against Council by Faye Heuer claiming for damages against Council due to an accident allegedly caused by potholes (Date of incident February 2009 and summons received by BCMM February 2012).	2,209,820	2,209,820
Contracts awarded during Dr.Zitha's tenure as Acting Municipal Manager were investigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.	20,474,866	20,474,866
A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013).	15,812,736	15,812,736
A claim has been instituted against Council by Ranamane Mokalane Incorporated for professional fees owed for services rendered by them (Date of incident April and May 2010 and summons received March 2013).	2,724,871	2,724,871
A claim has been instituted against Council by Willards Travel Services (PTY) Ltd for fees owed for services rendered by them (Date of incident November 2013 to January 2014 and letter of demand received February 2014).	1,324,451	1,324,451
A claim has been instituted against Council by Ursa Give JV for work allegedly completed by them for BCMM (Date of incident March 2014 and summons received December 2014).	5,222,154	5,222,154
A claim has been instituted against Council by Primelands Properties for cancellation of a tender awarded to them by BCMM (Letter of demand received July 2014). The amount disclosed in the 2014/2015 financial year was as per the letter of Demand received by BCMM which was R14,400,000. When Primelands issued the Summons in the 2015/2016 financial year the amount was 17,465,502.	17,465,502	14,400,000
A claim has been instituted against Council by Civcon for cancellation of a tender awarded to them by BCMM (Date of incident December 2013 and summons received October 2014). (Resolved)	-	15,536,453

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015
48. Contingent liabilities (continued)		
A claim has been instituted against Council by THM Engineers & Others for payment of additional fees relating to a contract to construct toilets (Date of incident May 2014 and summons received October 2014).	1,157,925	1,157,925
A claim has been instituted against Council by Adalwa Trading cc for unlawful termination of contract and non-payment for services rendered (Date of incident June 2015 and summons received September 2015).	1,452,000	-
A claim has been instituted against Council by Asla Construction (Pty) Ltd in respect of alleged breach of contract and interest accruing from non-payment (Date of incident September 2015 to February 2016 and summons received May 2016).	23,836,859	-
A claim has been instituted against Council by Asla Construction (Pty) Ltd in respect of Provisional Sentence for Certificates issued for services rendered in terms of an alleged contract between BCMM and them (Date of incident June to August 2015 and summons received October 2015).	7,026,973	-
Total Contingent Liabilities in respect of Litigation Issues	**173,368,736**	**152,768,327**
Labour issues		
Directors bonuses. The liability for the 2014/2015 financial year was calculated from 2010/2011 to 2014/2015 whereas the liability for the 2015/2016 financial year was calculated from 2012/2013 to 2015/2016 as it is unlikely that the bonuses for the 2010/2011 and 2011/2012 would become payable.	4,892,489	5,771,204
Labour disputes which have resulted in possible claims by employees.	3,618,180	2,898,117
Unfair Labour Practice in relation to progression of Fire Fighters with effect from 01 April 2010.	-	6,345,582
Total Contingent Liabilities in respect of Labour Issues	**8,510,669**	**15,014,903**
Insurance issues		
Claims have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advice has been sought and Council will defend claims where so advised.	7,083,887	6,458,450
Claims have been instituted against Council due to various damage claims.	2,722,830	1,767,074
A claim has been instituted against Council by Mercedes-Benz SA in respect of a voltage fluctuation which allegedly fell outside the time periods and parameters as agreed upon in the electricity supply agreement between BCMM and MBSA resulting in damage to body shop machinery (Date of incident September 2009 and claim received by BCMM November 2009). (Resolved)	-	2,300,235
A claim has been instituted against Council by M. Gwentsha, K. Poni, N. Magxwalisa, T. Nzuzo and D. Sam in respect of an alleged shooting incident (Date of incident January 2009 and claim received by BCMM March 2009). (Resolved)	-	2,500,000
A claim has been instituted against Council by T. Bejia and D.H.E. Bejia in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012).	7,001,517	7,001,517
A claim has been instituted against Council by S. Tsolekile in respect of personal injury caused by tripping in an open manhole (Date of incident January 2013 and Summons received by BCMM November 2013).	4,000,000	4,000,000
A claim has been instituted against Council by B.B. Sparks in respect of personal injury and vehicle damages caused by smoke from fire (Date of incident November 2013 and claim received by BCMM February 2014).	1,950,000	1,950,000
A claim has been instituted against Council by A.N. Ndzamela in respect of financial loss caused by the incorrect approval of a plan (Date of incident October 2007 and claim received by BCMM August 2014).	1,500,000	1,500,000
A claim has been instituted against Council by Collectall Properties Trust, Collectall Group (Pty) Ltd, Haddpack (Pty) Ltd and Actebis 312CC t/a D&T Engineering in respected of property damaged by a fire (Date of incident June 2014 and claim received by BCMM December 2014). (Resolved)	-	7,342,358
A claim has been instituted against Council by S. Sithole in respect of personal injury caused by a sliding gate (Date of incident June 2015 and claim received by BCMM July 2015). (Resolved)	-	3,800,000

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015
48. Contingent liabilities (continued)		
A claim has been instituted against Council by N.E. Sokoyi in respect of the death of her son caused by an electrical cable (Date of incident November 2012 and claim received by BCMM November 2015).	1,400,000	-
A claim has been instituted against Council by N. Ndamase in respect of injury to her son caused by a collapsed floodlight mast (Date of incident October 2015 and claim received by BCMM May 2016).	1,100,000	-
A claim has been instituted against Council by H. Dirker in respect of injury caused by a water slide (Date of incident December 2013 and claim received by BCMM March 2016).	4,000,000	-
A claim has been instituted against Council by M. Noland, E. Johannes, C.A. Fraser, G. Peacock, R. Windvogel and A. Gomo in respect of an alleged shooting incident (Date of incident May 2016 and claim received by BCMM May 2016).	1,400,000	-
A claim has been instituted against Council by D. Mangaliso in respect of injury to her son caused by falling into a sewerage water pit. (Date of incident June 2016 and claim received by BCMM August 2016).	1,200,000	-
A claim has been instituted against Council by R.J. Janse van Rensburg in respect of injury caused by falling into an open drain. (Date of incident May 2014 and summons received by BCMM August 2016).	2,535,000	-
Total Contingent Liabilities in respect of Insurance issues	**35,893,234**	**38,619,634**
Total Contingent Liabilities	**217,772,639**	**206,402,864**

Contingent assets

A counterclaim of R27 140 802 (2015: R27 140 802) has been instituted by Council against Dormell Properties trading as Alliance Communications for repayment of amounts paid to them relating to the forensic investigation on Dr Zitha's appointments.

BCMM purchased property in the amount of R762 440 (2015: R762 440) from Roger Rodney Smith who has now instituted a claim against Council for the sale to be reversed. If successful, BCMM will be refunded the amount.

Summons in the amount of R492 050 (2015: R492 050) have been issued to parties to recover costs incurred relating to a forensic investigation undertaken in respect of services rendered for waste sites.

A claim of approximately R515 946 (2015: R515 946) has been instituted by Council against ASBF Marking, Imigudu Joint Venture and Others due to contractor disputes whereby the contractor defaulted from their obligations in terms of the contract.

A claim in reconvention of R7 327 965 (2015: R7 327 965) has been instituted by Council against Phumelela Africa Professional Engineers t/a Phumaf Consulting Engineers (Pty) Ltd for repayment of amounts paid to them as the procurement processes were not followed.

A claim of R0 (2015: R120 000) has been instituted by Council against Yekela for payment of taxed costs in favour of BCMM.(Resolved)

A claim of R48 687 (2015: R0) has been instituted by Council against Jikwana for payment of taxed costs in favour of BCMM.

A claim of R33 714 (2015: R0) has been instituted by Council against Erf 14719 Zilmar Court Yard for payment of taxed costs in favour of BCMM.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

49. Related parties

Controlled entities	Buffalo City Metropolitan Development Agency SOC Ltd
Associate	Refer to note 7
Members of key management - BCMDA	Mr GB Qotywa Ms V Ntsodo Mr Jikela

Buffalo City Metropolitan Development Agency (BCMDA) (a SOC Ltd company registration no 2016/168330/30)

The BCMDA was incorporated on 20 April 2016 as a Municipal entity of BCMM. BCMDA is 100% controlled by BCMM.

BCMM relationship with BCMDA: Subsidiary - Buffalo City Metropolitan Development Agency (SOC) Ltd.

The entity issued grants of R 871 360 (VAT inclusive) to BCMDA during the current financial year (2015: R0 - VAT inclusive).

BCMDA has paid no consumer accounts during the current financial year.

There are no share based payments in respect of BCMDA.

There are no post-employment benefits for key personnel in respect of BCMDA.

BCMDA - New Board members were appointed with effect from 01/02/14 and BCMDA was registered on 20/04/16.

For key management and Councillors remuneration refer to notes 34 and 35.

Buffalo City Development Agency (BCDA) (a Section 21 company registration no 2004/016829/08):

The BCDA was incorporated on 18 June 2004 as a Municipal entity of BCMM. BCDA is 100% controlled by BCMM. BCMM Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2005.

BCMM relationship with BCDA: Subsidiary - Buffalo City Development Agency (SOC) Ltd.

The entity issued grants of R4 108 909 (VAT inclusive) to BCDA during the current financial year (2015: R1 850 658 - VAT inclusive).

BCDA has paid no consumer accounts during the current and 2015 financial years.

There are no share based payments in respect of BCDA.

There are no post-employment benefits for key personnel in respect of BCDA.

BCMM paid an amount of R944 938 (2015: R1 767 681) VAT inclusive in respect of grass mowing, municipal services and office rental for the 2015/16 financial year to the East London IDZ.

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
Buffalo City Metropolitan Municipality	-	27,416
East London IDZ SOC Ltd	(536,560)	-

Key management information - BCMDA

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand	2016	2015

49. Related parties (continued)

Class	Description	Number
Non-executive board members	Board of Directors	5
Audit Committee	Shared with parent municipality	6
Executive management	Agency management	3

50. Prior period errors

During the year the following adjustments were made to transactions whereby amounts were erroneously stated in previous financial periods:

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

50. Prior period errors (continued)

Accumulated surplus prior to 2015			
Ajustment to wastewater network	4	-	12,244,269
Adjustment to roads	4	-	(873,389)
Unspent grants recognised as revenue	18	-	6,895,748
Payables from exchange transactions-salaries back pay	24	-	(16,591,707)
Adjustment to intangible assets	5	-	(1,088,032)
Adjustment to other debtors - accrued income	12	-	(2,101,464)
Adjustment to furniture and office equipment	4	-	4,512,148
Adjustment to other buildings	4	-	(86,778)
Total changes to accumulated surplus prior to 2015		**-**	**2,910,795**

Statement of Financial Position 2015			
Adjustment to plant, furniture & office equipment	4	-	914,290
Adjustment to WIP	4	-	(685,821)
Adjustment to intangible assets	5	-	3,258,979
Ajustment to wastewater network	4	-	(63,377,560)
Adjustment to unspent conditional grants	18	-	(14,175,381)
Adjustment to payables from exchange transactions	24	-	68,702,066
Adjustment to other debtors - accrued income	12	-	2,101,464
Adjustment to roads	4	-	2,125,867
Adjustment to other properties	4	-	17,230
Adjustment to water network	4	-	868,466
Adjustment to electricity network	4	-	68,863
Adjustment to the revaluation reserve	16	-	(729,374)
Adjustment to community buildings	4	-	2,161,481
Adjustment to Vat Payable - BCDA	25	-	(2,915)
Adjustment to Payroll Payables - BCDA	24	-	12,250
Adjustment to Trade payables - BCDA	24	-	23,735
Adjustment to Current tax payable - BCDA	46	-	(17,546)
Total changes to the Statement of Financial Position 2015		**-**	**1,266,094**
		-	1

Statement of Financial Performance 2015			
Surplus for the year as per audited financial statements		-	371,485,396
Transferring opex from WIP to general maintenance expenditure	42	-	(3,338,374)
Depreciation on wastewater network adjusted 2015	37	-	44,544,044
Conditional grants recognised as revenue - sundry income 2015	29	-	7,004,916
Salaries, overtime and allowances paid in 2016 iro 2014	34	-	(48,712,413)
Operating expenditure relating to housing projects 2015	42	-	626,249
Conditional grants recognised as revenue - other subsidies 2015	33	-	274,716
Gain (loss) on disposal of assets and liabilities 2015	4	-	(2,363,733)
Directors fees - BCDA	35	-	(12,250)
Consulting fees - BCDA	42	-	(20,820)
Tax expense - BCDA	46	-	17,271
Deferred tax adjustments - BCDA	46	-	275
Net affect on surplus for 2015		**-**	**(1,980,119)**
Restated surplus for 2015		**-**	**369,505,277**

Reconciliation of restated balance of the accumulated surplus as at 1 July 2014		
Balance as per audited financial statements	-	9,006,243,648
Changes affecting net assets	-	2,910,795
Balance as at 1 July 2014 restated	**-**	**9,009,154,443**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

50. Prior period errors (continued)

Reconciliation of restated balance of the accumulated surplus as at 1 July 2015		
Balance as per audited financial statements	-	9,384,674,248
Changes affecting net assets	-	(1,266,094)
Balance as at 1 July 2015 restated	**-**	**9,383,408,154**

Summary: Adjustments affecting Net Assets		
Changes to operating I & E accounts in the 2014 and earlier years	-	2,910,795
Changes to operating I & E accounts in the 2015 and earlier years	-	(1,980,119)
Changes to the accumulated surplus for 2015 (movable asstes)	-	(2,196,770)
Total changes affecting Net Assets	**-**	**(1,266,094)**

51. Risk management

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The municipality's strong financial position will allow additional access to long-term facilities as and when required.

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

51. Risk management (continued)

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the entity to fair value interest rate risk.

The risk of a decrease in interest rate will place additional pressure to funding operations as a result of less income being realised from interest received.

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
Trade and other receivables - normal credit terms	10.00 %	1,156,632,408	-	-	-	-
Cash in current banking institutions	6.50 %	223,091,395	-	-	-	-
Call investment deposits	5.95 %	2,152,490,316	-	-	-	-
Trade and other payables - extended credit terms	9.00 %	435,192,104	-	-	-	-
Long term borrowings	10.17 %	(50,709,031)	(98,350,595)	(150,922,619)	(208,896,175)	(236,871,501)

These amounts best represent maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value 30 June 2016	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)
Trade and other receivables	10.00 %	1,156,632,408	1,051,484,007	1,061,130,650	1,042,011,178
Trade and other payables	9.00 %	435,192,104	399,258,811	402,955,652	395,629,185
Cash in current banking institutions	6.50 %	223,091,395	209,475,488	211,461,038	207,526,879
Call investment deposits	5.95 %	2,152,490,316	2,031,609,548	2,050,967,428	2,012,613,666

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the interest rate could occur. The method used to prepare the sensitivity analysis was based on the discounted value of the respective cash flow for 1 year using the respective current interest rate in order to determine the effect of applicable market risk of a 1% increase or decrease in the interest rate.

Credit risk

Credit risk consists mainly of cash deposits (refer note 15) and trade debtors (refer notes 12 & 14). The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

51. Risk management (continued)

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 benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings, cash and cash equivalents and equity.

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

The entity is in an enviable position of having access to additional long term facilities in order to invest in the replacement of infrastructure assets.

52. Going concern

The audited consolidated 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.

53. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

54. Unauthorised expenditure

Unauthorised expenditure	432,067,162	186,767,984
Expenditure authorised in terms of section 32 of the MFMA	(432,067,162)	-
Unauthorised expenditure for the year	21,985,787	245,299,178
Closing balance	**21,985,787**	**432,067,162**

The unauthorised expenditure for 2015 can be attributed to difficulty of achieving budget accuracy for each expenditure type due to varying operational requirements.

The unauthorised expenditure comprises the following:
- Debt impairment of R178.04 million
- Depreciation and asset impairment of R12.79 million
- Finance charges of R1.42 million
- Transfers and grants of R32.25 million due to an increase in the indigent register
- Other expenditure of R20.86 million as a result of transfers that were made between capital and operating expenditure

The unauthorised expenditure for the 2016 financial year relates to the Directorate Municipal Services.

55. Fruitless and wasteful expenditure

Opening balance	6,028,133	5,532,125
Acts of negligence.	71,218	479,457
Interest charged on overdue accounts due to late payment.	64	164
SARS - Interest	4,350	3,500
SARS - Penalties	25,548	12,887
	6,129,313	**6,028,133**

Staff members involved in acts of negligence resulted in the entity incurring losses totalling R71 282 (2015: R479 621).

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

55. Fruitless and wasteful expenditure (continued)

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the write off and future actions to be taken in accordance with the provisions in terms of Section 32 of the MFMA.

The 2015 opening balance amount of R5 532 125 includes expenditure relating to the period from 2010.

56. Irregular expenditure

Opening balance	1,953,077,372	1,399,317,692
Add: Irregular Expenditure - current year	235,302,065	553,759,680
Less: Amounts written-off approved by Council	(340,459,153)	-
Closing balance	**1,847,920,284**	**1,953,077,372**

56. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Amounts written-off approved by Council	(340,459,153)	-
Current year	235,302,065	553,759,680
Prior years	1,953,077,372	1,399,317,692
	1,847,920,284	**1,953,077,372**

Details of irregular expenditure		
Procurement made outside SCM regulations	3,387,884	21,979,765
BCC contracts	118,393,925	90,821,414
Annual contracts	80,325,614	247,142,393
Electricity contracts	-	110,250
Expired leases	-	253,903
Irregular expenditure made on 3 quotation system	2,510,571	4,597,777
Database transactions below R30 000	-	180,590
Formal contracts	1,745,761	9,658,451
Informal contracts	-	1,109,016
Non-approved deviations by Council - MFMA Reg 36 on SCM	-	96,200,031
Suppliers in service of state	28,938,310	81,205,455
Expenditure in excess of awarded contract value	-	500,635
	235,302,065	**553,759,680**

Prior Year Adjustment : Opening balance		
As previously disclosed 2014/15 annual financial year	-	1,338,394,885
Revised disclosure 2014/15 annual financial year	-	1,399,317,692
	-	**-**

Details of irregular expenditure - Previously disclosed 2014/15 financial year		
Procurement made outside SCM regulations	-	21,955,212
BCC contracts	-	79,221,509
Annual contracts	-	222,308,106
Electricity contracts	-	110,250
Expired leases	-	253,903
Irregular expenditure made on 3 quotation system	-	4,504,736
Database transactions below R30 000	-	180,590
Formal contracts	-	4,627,975
Informal contracts	-	957,016
Non-approved deviations by Council - MFMA Reg 36 on SCM	-	95,545,663
Suppliers in service of state	-	49,580,215
	-	**479,245,175**

57. In-kind donations and assistance

FELZOO donated assistance to BCMM	4,000	71,149
FELA donated assistance BCMM	-	3,800
	4,000	**74,949**

58. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	11,800,000	11,096,000
Amount paid - current year	(11,800,000)	(11,096,000)
	-	-

Contributions to SA Cities Network

Current year subscription / fee	1,650,000	1,500,000
Amount paid - current year	(1,650,000)	(1,500,000)
	-	-

Audit fees

Current year fee	13,212,304	12,868,232
Amount paid - current year	(13,212,304)	(12,868,232)
	-	-

PAYE, UIF and Skills

Current year subscription / fee	210,681,215	179,546,520
Amount paid - current year	(210,681,215)	(179,546,520)
	-	-

Amounts in respect of June 2016 were paid by 07 July 2016 as per legislation, therefore there were no outstanding amounts for the financial year 2015/16.

Pension and Medical Aid Deductions

Current year subscription / fee	313,834,329	278,218,096
Amount paid - current year	(313,834,329)	(278,218,096)
	-	-

Amounts in respect of June 2016 were paid by 07 July 2016 as per legislation, therefore there were no outstanding amounts for the financial year 2015/16.

VAT

VAT receivable	96,847,762	83,018,326

VAT output payables and VAT input receivables are shown in note 13 as net VAT receivable.

All VAT returns have been submitted by the due date throughout the year. Vat is only declared to SARS on receipt of payment from consumers.

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

Councillors' and officials arrear consumer accounts

Arrear Councillors accounts totalling R4 621 were outstanding for more than 90 days at 30 June 2016 (2015: R30 811) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

30 June 2016		Outstanding more than 90 days R	Total R
Councillor A.M. Matana - water leak query and existing stop order deduction	-	3,018	3,018
Councillor M. Sam - existing stop order deduction	-	1,603	1,603
	-	**4,621**	**4,621**

30 June 2015		Outstanding more than 90 days R	Total R
Councillor N.P. Peter - existing stop order deduction	-	14,067	14,067
Councillor A.M. Matana - water leak query and existing stop order deduction	-	11,459	11,459
Councillor M.G. Nkula - existing stop order deduction	-	2,833	2,833
Councillor R.N. May - existing stop order deduction	-	1,720	1,720
Councillor T. Mtintsilana - existing stop order deduction	-	732	732
	-	**30,811**	**30,811**

During the year officials accounts totalling R799 344 (2015: R668 455) were outstanding for more than 90 days.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

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

Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

During the financial year under review goods/services totaling R241 666 353 (2015: R3 163 213) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

Nature of deviation

	No of contracts	Value of contracts
Emergency	25	121,308,939
Sole supplier	9	87,004,400
Other exceptional cases	22	31,787,416
Deviations - BCMDA	4	1,541,456
	60	**241,642,211**

ELECTRICITY LOSSES		**AMOUNT**	**%**	**AMOUNT**	**%**
Technical	-	80,726,395	6.50	67,757,414	6.50
Non-technical	-	99,728,870	8.03	95,054,329	9.30
	-	**180,455,265**	**14.53**	**162,811,743**	**15.80**

Technical losses: Losses within the network which are inherent in any network.

Non-technical losses: Theft, faults and billing errors.

Attempts are currently being made to reduce these non-technical losses.

WATER LOSSES		**AMOUNT**	**%**	**AMOUNT**	**%**
Technical	-	85,446,631	30.00	86,523,456	30.00
Non-technical	-	31,273,467	10.98	12,805,471	4.44
	-	**116,720,098**	**40.98**	**99,328,927**	**34.44**

Technical losses: Per National Treasury Circular 71 issued 17 January 2014 technical losses for water losses is set between 15% to 30%. Therefore, the entity has elected to use the maximum percentage allowed as the distribution loss is higher than 30%.

Non-technical losses: Losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

The above losses include rural areas and informal settlements.

REVENUE FORGONE

Based on audit sampling testing, indigent subsidies in the amount of R37 061 were identified being paid to persons whose applications for indigent status are not valid. The extrapolated amount over the entire indigent subsidy population amounts to R14 770 317. These amounts are not recoverable and are considered to be revenue foregone.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

59. Utilisation of Long-term liabilities reconciliation

Finance lease raised	-	493,860
Used to finance property, plant and equipment	-	(493,860)
	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

60. Cash flows from operating activities

Receipts: Sale of goods and services			
Total revenue as per Statement of Financial Performance		6,103,957,504	5,572,982,624
Less: Fair value adjustments	43	13,727,929	(4,909,235)
Less: Interest received	30	(187,436,207)	(159,221,294)
Less: Government grants and subsidies received	33	(1,634,064,239)	(1,564,005,750)
Loss/(gain) on sale of assets	4	(499,569)	32,772,122
Movement in revenue from non-exchange transactions	12	(254,235,806)	(309,829,240)
Movement in receivables from exchange transactions	14	(322,984,614)	(170,586,935)
Fair value adjustment on Investment Property revalued	43	(13,727,929)	4,909,235
Movement in VAT receivables	13	(13,829,436)	(17,450,056)
Revaluation reserve realised	16	-	(66,573,130)
Movement in operating lease receivable	9	(2,929,997)	(2,573,654)
		3,687,977,636	**3,315,514,687**

Payment: Suppliers			
Total expenditure as per the Statement of Financial Performance		(5,464,435,191)	(5,121,582,300)
Employee costs and Councillors remuneration	34&35	1,406,575,925	1,281,665,033
Interest paid	38	54,877,713	60,674,266
Depreciation and amortisation	37	789,811,231	684,830,961
Gain/(Loss) on disposal of assets	4	499,569	(32,772,122)
Reversal of impairments	4	-	504,750
Debt impairment	39	210,111,414	365,110,172
Depreciation adjustment	4	(1,158,832)	(1,051,645)
Net movement on unspent conditional grants	18	19,727,167	(22,178,515)
Movement in post retirement medical aid benefit obligation	10	1,692,983	89,348,202
Movement in provisions relating to landfill sites	20	8,417,824	(7,473,888)
Ajustments in SoCNA	4	-	7,659,232
Non-cash and adjustments on PPE	4	(8,142,771)	(20,460,681)
Impairment	4	-	(34,040)
Revaluation of property plant and equipment	4	-	15,764,840
Revaluation recognized in SoCNA	16	(8,740,052)	436,826,309
Movement in payables from exchange transactions	24	328,511,889	(37,607,467)
Opening balance adjustment on PPE 2015	4	-	(389,360,547)
Movement in inventory	11	8,848,174	5,719,579
Opening balance adjustment on Intangible assets	4	-	1,088,030
Movement in VAT payable	25	357,562	28,043
Movement in operating lease liability	9	92,989	-
		(2,652,952,406)	**(2,683,301,788)**

Notes to the Audited Consolidated Annual Financial Statements

61. Surplus / (Deficit) for the year

Reconciliation of actual operating results to net income / (deficit)		
Net income for the period	684,133,176	369,505,277
Share of surplus of associate accounted for under the equity method	(30,383,365)	(22,359,440)
Capital expenditure ex grant funding	(670,393,964)	(615,492,273)
Actual operating results	**(16,644,153)**	**(268,346,436)**

62. Retirement benefit information

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below

:
-Cape Joint Pension Fund
-Cape/Consolidated Retirement Fund
-Eastern Cape Local Authorities Provident Fund
-Government Employees Pension Fund
-SAMWU National Provident Fund
-SALA Pension Fund
-East London Municipal A Band Provident Fund
-Municipal Employees Pension Fund
- Municipal Councillors Pension Fund
- National Fund for Municipal Worker
-Aftredevoorsieningfonds vir Kaapse Plaaslike Owerhede

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2015 conducted by S. Neethling from MMI Group Limited. The fund was 153.1% funded at valuation date.

The Cape/Consolidated Retirement Fund's last actuarial valuation was at 30 June 2015 conducted by S. Neethling from MMI Group Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2015 conducted by E. Du Toit from Alexander Forbes Financial Services, who conformed that the fund was not in an unsound financial condition as at the review date in terms of section 16 of the Pension Funds Act. . The funding level was at 99.9% at valuation date.

The Government Employees Pension Fund's last valuation was at 31 March 2012 conducted by H. Buck . The funding level at this date was 100%.

SAMWU National Provident Fund's last actuarial valuation was at 30 June 2008 conducted by E.J. Potgieter from Towers Watson (Pty) Ltd. The report stated that the fund was in a sound financial position.

The SALA Pension Fund's last valuation was at 30 June 2015 conducted by J.F. Rosslee of ARGEN Actuarial Solutions. The fund was 100% funded as at valuation date. The valuator was satisfied with the investment strategy of the fund and the nature of the assets are in his opinion, suitable for the nature of the liabilities of the fund as defined in the rules of the fund.

The Municipal Employees Pension Fund's last interim valuation was at 28 February 2014 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The report stated that the fund was financially sound and the funding level at this date was 100%.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

62. Retirement benefit information (continued)

The Municipal Councillors Pension Fund's last valuation was at 30 June 2015 prepared by Mothapo R. and Barnard G.M. from Moruba Consultants and Actuaries. The report stated that the funding level was 100% at the time of valuation.

The National Fund for Municipality Worker's last Actuarial Valuation was at 30 June 2014 and prepared by G. Grobler and A. Bezuidenhout from Alexander Forbes Financial Services. The funding level at this date was 100.10%.

The East London Municipal A Band and the Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede is a fixed/defined contribution fund. It is therefore not necessary to perform an actuarial valuation for this fund.

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 17 million.

An amount of R 208 million (2015: R 185 million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee retirement funding. These contributions have been expensed.

63. Bids awarded to family of employees in service of the State

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of an employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand

63. Bids awarded to family of employees in service of the State (continued)

Connected person	Position held in BCMM	2016	2015
T. Nyati	PA to SCM GM	229,443	266,777
T. Ceshemba	Relocation Officer	27,700	157,895
H. Lestig	Handyman	-	85,867
S. Majembe	Buyer	173,179	22,105
U. Gazi	Senior Buyer	-	22,895
C. Ruiters	Tender Co-ordinator	139,343	-
H. Lestig	Handy Man	271,200	-
Total		**840,865**	**555,539**

Connected person	Name of institution	2016	2015
V.Y. Weitz	Department of Education	-	967,930
I. Joubert	Department of Higher Education	85,965	235,965
B. Nxamleko	SIU	-	129,960
F. Ngcwangu	EC Provincial Planning & Treasury	400,314	579,003
C.M. Poonsamy	EC Department of Labour	-	444,063
Y. Phosa	CT Parliament	-	171,750
G. Luthuli	Department of Social Development	45,800	-
N. Maqula	Department of Human Settlements	518,096	-
B. Nxamleko	SIU	213,215	-
D. Muzenda	National Lottery	1,283,641	-
Total		**2,547,031**	**2,528,671**

64. Municipal Standard Chart of Accounts (mSCOA)

The Minister of Finance published the Municipal Regulations on Standard Chart of Accounts (mSCOA) into effect on 22 April 2014. The primary objective of the mSCOA is to achieve an acceptable level of uniformity and quality from the collection of Local Government data. In order to achieve this main objective, the National Treasury has proposed a uniform and standardised classification framework that municipalities should use to record all financial transactions and ensure that a entity has minimum business processes in place.

BCMM has been selected by National Treasury as a pilot site for the implementation of mSCOA. The entity implemented the mSCOA in a phased approach by making changes to the General Ledger to accommodate the new standard chart of accounts with effect from 1 July 2015. This standard chart of accounts has undergone extensive review processes by National Treasury and a final version is expected to be introduced for implementation from 1 July 2017. Full compliance with the regulations is required to be achieved by 1 July 2017.

Although there have been changes to the General Ledger structure in the 2015/16 financial year management's assessment is that this has not had a material effect on the classification of Assets, Liabilities, Revenue and Expenditure and on the comparative figures with the prior year.