Great Kei Local Municipality
(Registration number EC123)
Annual Financial Statements
for the year ended 30 June 2016

Great Kei Local Municipality
Annual Financial Statements for the year ended 30 June 2016

General Information

Nature of business and principal activities	Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998) The municipality's operations are governed by: -Municipal Finance Management Act no. 56 of 2003 -Municipal Structure Act no.117 of 1998 -Municipal Systems Act no. 32 of 2000 and various other acts and regulations.
Mayoral committee	
Mayor	Tekile N (Speaker)
Chief Whip	Ndabambi-Gavumente L
Councillors	Dyani SM
	Jacobs SM
	Mali MT
	Mevana NV
	Mgema NP
	Mzamo MK
	Moli N
	Ndoro W
	Ngabayena N
	Wood B
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mosala M L
Accounting Officer	I. Sikhulu Nqwena
Bankers	Standard Bank Limited
Auditors	Auditor General of South Africa

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

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

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

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

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

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 79, which have been prepared on the going concern basis, were approved and signed by:

I. Sikhulu Nqwena
Municipal Manager

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Inventories	3	174,738	-
Receivables from exchange transactions	4	6,942,421	5,948,052
Receivables from non-exchange transactions	5	4,310,077	3,822,429
Cash and cash equivalents	6	2,155,926	21,004,969
		13,583,162	**30,775,450**
Non-Current Assets			
Investment property	7	71,543,700	71,543,700
Property, plant and equipment	8	303,213,320	294,182,455
Intangible assets	9	113,926	40,186
		374,870,946	**365,766,341**
Total Assets		**388,454,108**	**396,541,791**
Liabilities			
Current Liabilities			
Other financial liabilities	10	487,267	627,762
Finance lease obligation	11	263,987	412,650
Payables from exchange transactions	12	23,927,238	20,848,867
VAT payable	44	928,321	1,217,735
Employee benefit obligation	13	707,000	818,000
Unspent conditional grants and receipts	14	4,696	20,000,064
		26,318,509	**43,925,078**
Non-Current Liabilities			
Other financial liabilities	10	1,023,508	1,509,986
Finance lease obligation	11	331,520	595,488
Employee benefit obligation	13	8,257,000	7,161,000
Provisions	15	9,167,022	4,229,258
		18,779,050	**13,495,732**
Total Liabilities		**45,097,559**	**57,420,810**
Net Assets		**343,356,549**	**339,120,981**
Accumulated surplus		343,356,549	339,120,981

* See Note 36

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	16	5,485,345	7,403,343
Rental of facilities and equipment	17	316,805	232,878
Licences and permits	22	1,185,825	2,239,630
Commissions received	22	44,615	38,542
Other income	18	2,031,248	1,277,527
Interest received	19	5,566,736	6,458,271
Total revenue from exchange transactions		**14,630,574**	**17,650,191**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	17,000,150	19,710,389
Transfer revenue			
Government grants & subsidies	21	81,851,649	55,451,915
Fines, Penalties and Forfeits	22	33,300	28,650
Total revenue from non-exchange transactions		**98,885,099**	**75,190,954**
Total revenue	22	**113,515,673**	**92,841,145**
Expenditure			
Employee related costs	23	(42,570,086)	(31,762,475)
Remuneration of councillors	24	(3,992,576)	(3,713,675)
Administration		(206,243)	(505,743)
Depreciation and amortisation	25	(20,569,147)	(18,014,457)
Impairment loss		(4,698,330)	(19,952,217)
Finance costs	26	(1,238,389)	(1,366,630)
Lease rentals on operating lease		-	160,412
Debt Impairment	27	(3,973,336)	(17,441,995)
Repairs and maintenance		(3,254,762)	(1,566,300)
Bulk purchases	28	(7,954,154)	(7,262,361)
General expenses	29	(20,994,682)	(19,185,546)
Total expenditure		**(109,451,705)**	**(120,610,987)**
Operating surplus / (deficit)		**4,063,968**	**(27,769,842)**
Loss on disposal of assets and liabilities		(85,400)	(1,908,338)
Actuarial gains/losses	13	257,000	1,380,000
Revenue forgone		-	(2,007,578)
		171,600	**(2,535,916)**
Surplus / (deficit) for the year		**4,235,568**	**(30,305,758)**

* See Note 36

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	314,951,381	314,951,381
Adjustments		
Correction of errors	54,475,358	54,475,358
Balance at 01 July 2014 as restated*	**369,426,739**	**369,426,739**
Changes in net assets		
Deficit for the year	(30,305,758)	(30,305,758)
Total changes	(30,305,758)	(30,305,758)
Restated* Balance at 01 July 2015	**339,120,981**	**339,120,981**
Changes in net assets		
Surplus for the year	4,235,568	4,235,568
Total changes	4,235,568	4,235,568
Balance at 30 June 2016	**343,356,549**	**343,356,549**

Note(s)

* See Note 36

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		17,030,141	12,711,911
Grants		81,854,390	55,451,915
Interest income		5,566,736	6,458,271
Other receipts		3,277,764	3,778,685
		107,729,031	78,400,782
Payments			
Employee costs		(46,562,662)	(35,680,150)
Suppliers		(43,518,706)	(5,130,725)
Finance costs		(5,651,226)	(285,015)
		(95,732,594)	(41,095,890)
Net cash flows from operating activities	30	**11,996,437**	**37,304,892**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(29,559,476)	(16,730,079)
Proceeds from sale of property, plant and equipment	8	-	4,388,745
Purchase of other intangible assets	9	(170,886)	-
Net cash flows from investing activities		**(29,730,362)**	**(12,341,334)**
Cash flows from financing activities			
Movement in other financial liabilities		(626,973)	(4,287,766)
Net finance lease liability (repaid)		(488,145)	(279,890)
Net cash flows from financing activities		**(1,115,118)**	**(4,567,656)**
Net increase/(decrease) in cash and cash equivalents		**(18,849,043)**	**20,395,902**
Cash and cash equivalents at the beginning of the year		21,004,969	609,067
Cash and cash equivalents at the end of the year	6	**2,155,926**	**21,004,969**

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	12,328,000	(1,026,000)	**11,302,000**	5,485,345	**(5,816,655)**	1
Rental of facilities and equipment	223,000	(73,000)	**150,000**	316,805	**166,805**	2
Licences and permits	2,500,000	80,000	**2,580,000**	1,185,825	**(1,394,175)**	3
Commissions received	-	-	**-**	44,615	**44,615**	
Other income	2,875,000	5,398,000	**8,273,000**	2,031,248	**(6,241,752)**	4
Interest received	4,349,000	(300,000)	**4,049,000**	5,566,736	**1,517,736**	5
Total revenue from exchange transactions	**22,275,000**	**4,079,000**	**26,354,000**	**14,630,574**	**(11,723,426)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	22,500,000	-	**22,500,000**	17,000,150	**(5,499,850)**	6
Transfer revenue						
Government grants & subsidies	47,417,000	-	**47,417,000**	81,851,649	**34,434,649**	7
Fines, Penalties and Forfeits	25,000	5,000	**30,000**	33,300	**3,300**	
Total revenue from non-exchange transactions	**69,942,000**	**5,000**	**69,947,000**	**98,885,099**	**28,938,099**	
Total revenue	**92,217,000**	**4,084,000**	**96,301,000**	**113,515,673**	**17,214,673**	
Expenditure						
Personnel	(44,595,000)	(1,906,000)	**(46,501,000)**	(42,570,086)	**3,930,914**	8
Remuneration of councillors	(3,727,000)	(150,000)	**(3,877,000)**	(3,992,576)	**(115,576)**	9
Depreciation and amortisation	(23,000,000)	8,000,000	**(15,000,000)**	(20,569,147)	**(5,569,147)**	11
Impairment loss/ Reversal of impairments	-	-	**-**	(4,698,330)	**(4,698,330)**	11
Finance costs	(739,000)	77,000	**(662,000)**	(1,238,389)	**(576,389)**	12
Bad debts written off	(4,100,000)	(7,900,000)	**(12,000,000)**	(3,973,336)	**8,026,664**	13
Bulk purchases	(7,000,000)	(500,000)	**(7,500,000)**	(7,954,154)	**(454,154)**	15
General expenses	(31,314,000)	(3,587,000)	**(34,901,000)**	(24,455,687)	**10,445,313**	16
Total expenditure	**(114,475,000)**	**(5,966,000)**	**(120,441,000)**	**(109,451,705)**	**10,989,295**	
Operating surplus	**(22,258,000)**	**(1,882,000)**	**(24,140,000)**	**4,063,968**	**28,203,968**	
Loss on disposal of assets and liabilities	-	-	**-**	(85,400)	**(85,400)**	17
Actuarial gains/losses	-	-	**-**	257,000	**257,000**	18
Transfers recognised - capital	30,210,838	2,854,000	**33,064,838**	33,064,838	**-**	
	30,210,838	**2,854,000**	**33,064,838**	**33,236,438**	**171,600**	
Surplus before taxation	**7,952,838**	**972,000**	**8,924,838**	**37,300,406**	**28,375,568**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**7,952,838**	**972,000**	**8,924,838**	**37,300,406**	**28,375,568**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	28,000,000	-	**28,000,000**	174,738	**(27,825,262)**	1
Receivables from exchange transactions	-	-	**-**	6,942,421	**6,942,421**	2
Receivables from non-exchange transactions	-	-	**-**	4,310,077	**4,310,077**	3
Consumer debtors	12,000,000	36,000,000	**48,000,000**	-	**(48,000,000)**	
Cash and cash equivalents	3,100,000	(600,000)	**2,500,000**	2,155,926	**(344,074)**	5
	43,100,000	**35,400,000**	**78,500,000**	**13,583,162**	**(64,916,838)**	
Non-Current Assets						
Investment property	112,000,000	(32,000,000)	**80,000,000**	71,543,700	**(8,456,300)**	6
Property, plant and equipment	235,000,000	10,000,000	**245,000,000**	303,213,320	**58,213,320**	7
Intangible assets	400,000	(355,000)	**45,000**	113,926	**68,926**	8
	347,400,000	**(22,355,000)**	**325,045,000**	**374,870,946**	**49,825,946**	
Total Assets	**390,500,000**	**13,045,000**	**403,545,000**	**388,454,108**	**(15,090,892)**	
Liabilities						
Current Liabilities						
Other financial liabilities	2,500,000	(1,000,000)	**1,500,000**	487,267	**(1,012,733)**	9
Finance lease obligation	-	-	**-**	263,987	**263,987**	10
Payables from exchange transactions	8,500,000	-	**8,500,000**	23,927,238	**15,427,238**	11
VAT payable	-	-	**-**	928,321	**928,321**	
Employee benefit obligation	-	-	**-**	707,000	**707,000**	12
Unspent conditional grants and receipts	-	-	**-**	4,696	**4,696**	13
Provisions	-	430,000	**430,000**	-	**(430,000)**	14
Consumer deposits	81,000	(65,000)	**16,000**	-	**(16,000)**	
	11,081,000	**(635,000)**	**10,446,000**	**26,318,509**	**15,872,509**	
Non-Current Liabilities						
Other financial liabilities	3,500,000	(500,000)	**3,000,000**	1,023,508	**(1,976,492)**	9
Finance lease obligation	-	-	**-**	331,520	**331,520**	10
Employee benefit obligation	-	-	**-**	8,257,000	**8,257,000**	12
Provisions	9,900,000	5,500,000	**15,400,000**	9,167,022	**(6,232,978)**	14
	13,400,000	**5,000,000**	**18,400,000**	**18,779,050**	**379,050**	
Total Liabilities	**24,481,000**	**4,365,000**	**28,846,000**	**45,097,559**	**16,251,559**	
Net Assets	**366,019,000**	**8,680,000**	**374,699,000**	**343,356,549**	**(31,342,451)**	
Net Assets						
Accumulated surplus						
Reserves						
Accumulated surplus	366,019,000	8,680,000	**374,699,000**	343,356,549	**(31,342,451)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	40,451,000	4,384,000	**44,835,000**	20,307,905	**(24,527,095)**	1
Grants	77,628,000	2,854,000	**80,482,000**	81,854,390	**1,372,390**	2
Interest income	4,349,000	(300,000)	**4,049,000**	5,566,736	**1,517,736**	3
	122,428,000	**6,938,000**	**129,366,000**	**107,729,031**	**(21,636,969)**	
Payments						
Employee costs	(86,637,000)	(6,143,000)	**(92,780,000)**	(90,081,368)	**2,698,632**	
Finance costs	(422,000)	177,000	**(245,000)**	(5,651,226)	**(5,406,226)**	5
	(87,059,000)	**(5,966,000)**	**(93,025,000)**	**(95,732,594)**	**(2,707,594)**	
Net cash flows from operating activities	**35,369,000**	**972,000**	**36,341,000**	**11,996,437**	**(24,344,563)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(35,052,000)	(1,097,000)	**(36,149,000)**	(29,559,476)	**6,589,524**	6
Proceeds from sale of property, plant and equipment	-	225,000	**225,000**	-	**(225,000)**	]
Purchase of other intangible assets	-	-	**-**	(170,886)	**(170,886)**	
Net cash flows from investing activities	**(35,052,000)**	**(872,000)**	**(35,924,000)**	**(29,730,362)**	**6,193,638**	
Cash flows from financing activities						
Movement in other liability	(317,000)	(101,000)	**(418,000)**	(626,973)	**(208,973)**	
Net finance lease liability (repaid)	-	-	**-**	(488,145)	**(488,145)**	
Net cash flows from financing activities	**(317,000)**	**(101,000)**	**(418,000)**	**(1,115,118)**	**(697,118)**	
Net increase/(decrease) in cash and cash equivalents	-	(1,000)	**(1,000)**	(18,849,043)	**(18,848,043)**	
Cash and cash equivalents at the beginning of the year	4,158,000	-	**4,158,000**	21,004,969	**16,846,969**	
Cash and cash equivalents at the end of the year	**4,158,000**	**(1,000)**	**4,157,000**	**2,155,926**	**(2,001,074)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

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

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

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therfore as follows:

Standards Issued and Effective:
- GRAP 1 - Presenttion of Financial Statements
- GRAP 2 - Cash Flow Statements
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 5 - Borrowing costs
- GRAP 9 - Revenue from Exchange Transactions
- GRAP 11 - Construction Contracts
- GRAP 12 - Inventories
- GRAP 13 - Leases
- GRAP 14 - Events After Reporting Date
- GRAP 16 - Investment Property
- GRAP 17 - Property, Plant and Equipment
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue From Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Cash Generating Assets
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Opertions
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - Can Base Accounting Policy on, or early adopt:
- GRAP 18 - Segment Reporting
- GRAP 20 - Related Party Disclosures

Interpretations:
- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3 - Determining whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Evironmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

1.1 Presentation currency

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

1.2 Going concern assumption

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other receivables

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

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

Fair value estimation

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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 tangible assets are inherently uncertain and could materially change over time.

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 15 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

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

Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Cost model

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

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

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

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

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

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

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

Item	Average useful life
Land	Indefinite
Infrastructure	
• Tarred roads and paving	30 – 50 years
• Access roads	3 – 5 years
• Electricity	7 – 50 years
Other property, plant and equipment	
• Buildings and related items	5 - 30 years
• Recreational facilities and related items	5 - 30 years
• Halls and related items	5 - 30 years
• Parks and gardens and related items	5 - 30 years
• Plant, machinery and other equipment	5 - 25 years
• Furniture, fittings and office equipment	5 - 10 years
• Motor vehicles	5 - 10 years
Landfill sites	4 years

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

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

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

1.5 Property, plant and equipment (continued)

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

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

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

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

1.6 Site restoration and dismantling cost

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

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

1.7 Intangible assets

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

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

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

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

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

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

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

1.7 Intangible assets (continued)

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.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	3 - 5 years

Intangible assets are derecognised:

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

1.8 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.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

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.

1.8 Heritage assets (continued)

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Transitional provision

The municipality changed its accounting policy for heritage assets in the 2012/2013 financial year. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts of R1 each, as disclosed in . The transitional provision expires on 30/06/2015.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.9 Financial instruments

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

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

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

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

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

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

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

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

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

A financial 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 an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Accounting Policies

1.9 Financial instruments (continued)

- 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 or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Long term borrowings	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

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

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.

1.9 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, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

The 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.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

1.9 Financial instruments (continued)

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

Derecognition

Financial assets

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

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

Financial liabilities

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

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

Presentation

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

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

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the 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.

1.10 Leases

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

1.10 Leases (continued)

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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.

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

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

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

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

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

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

1.12 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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 municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.14 Employee benefits

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

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 recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

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

Post-employment benefits

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

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

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 experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the 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 an 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 recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

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

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the 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 determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

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).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an 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, an 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-measure 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. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The 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.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits 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.

The entity shall recognise the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

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

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

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

1.15 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

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

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

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

1.16 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

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

Interest

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

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

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognisd as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on average monthly consumption of consumers.

1.16 Revenue from exchange transactions (continued)

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tarrif to each property that has improvements. The tarrifs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tarrif charges

Revenue arising from the application of approved tarrifs is recognised when the service is rendered by applying the relevant authorised tarrif. This includes the issue of licenses and permits.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement , where such terms span over more than one financial year a straight-line basis is used.

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

Rates, including collection charges, penalties and interest

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

Transfers

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

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

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

1.17 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The municipality recognise 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, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Public contributions

Revenue from public contributions is recognised on a cash basis when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not yet been met, a liability is recognised.

Government grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Governmet grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investments is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance in the period in which it is received.

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

1.18 Investment income

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

1.19 Borrowing costs

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

Borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

1.21 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.

1.22 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.

1.23 Irregular expenditure

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.

1.24 Conditional grants and receipts

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

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

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

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

Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates.

Accounting Policies

1.25 Budget information (continued)

These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as
part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note 45 to the Annual Financial Statements.

Comparative information is not required.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.27 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not been recognised anywhere else in the financial statements.

At the end of each financial period, the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in note 33 - commitments in the financial statements.

1.28 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirementsexcept to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospecively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note 36 to the financial statements.

Accounting Policies

1.29 Offsetting

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

1.30 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.31 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT.

Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

	2016 R	2015 R

3. Inventories

	2016 R	2015 R
Consumables	174,738	-

4. Receivables from exchange transactions

	2016 R	2015 R
Trade debtors	35,203,766	32,788,605
Debt impairment	(30,122,255)	(28,423,321)
Sundry debtors	1,624,243	1,577,736
Unallocated receipts	31,677	5,032
Department of transport MVR	114,955	-
Sundry receipt default debtor	90,035	-
	6,942,421	**5,948,052**

2016

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	92,212	36,259	1,114,064	1,242,535
Residents and others	887,406	389,758	25,984,271	27,261,435
Industries	296,208	184,383	6,219,205	6,699,796
	1,275,826	**610,400**	**33,317,540**	**35,203,766**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	431,341	187,251	727,407	1,345,999
Refuse removal	822,311	311,896	20,870,404	22,004,611
Sundry	22,175	111,252	11,719,729	11,853,156
	1,275,827	**610,399**	**33,317,540**	**35,203,766**

2015

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +		Total
Government	107,302	172,995	1,943,841	-	2,224,138
Residents and others	689,724	554,007	29,301,836	-	30,545,567
Industries	2,247	251	16,402	-	18,900
	799,273	**727,253**	**31,262,079**	**-**	**32,788,605**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +		Total
Electricity	255,830	225,182	4,437,551	-	4,918,563
Refuse removal	540,821	497,245	19,098,628	-	20,136,694
Sundry	2,622	4,826	7,725,900	-	7,733,348
	799,273	**727,253**	**31,262,079**	**-**	**32,788,605**

Reconciliation of provision for impairment of trade and other receivables

	2016 R	2015 R
Opening balance	28,423,321	20,897,815
Provision for impairment	3,911,741	8,793,196
Amounts written off as uncollectible	(2,212,807)	-
Municipal debt reversal	-	(1,267,690)
	30,122,255	**28,423,321**

Notes to the Annual Financial Statements

	2016 R	2015 R

5. Receivables from non-exchange transactions

	2016 R	2015 R
Fines	99,700	70,350
Assessment rates	41,209,881	40,689,988
Debt impairment	(36,999,504)	(36,937,909)
	4,310,077	**3,822,429**

2016

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	229,585	72,676	1,230,841	1,533,102
Residents and others	2,209,411	781,218	28,707,984	31,698,613
Industries	737,482	369,571	6,871,113	7,978,166
	3,176,478	**1,223,465**	**36,809,938**	**41,209,881**

2015

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	46,849	42,422	1,083,976	1,173,247
Residents and others	124,805	114,687	3,639,885	3,879,377
Industries	1,692,842	1,218,919	32,725,603	35,637,364
	1,864,496	**1,376,028**	**37,449,464**	**40,689,988**

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

	2016 R	2015 R
Opening balance	36,937,909	29,536,305
Provision for impairment	32,245	8,578,449
Provision for impairment for fines	29,350	70,450
Amounts written off as uncollectible (municipal debt)	-	(1,247,295)
	36,999,504	**36,937,909**

During the period errors noted have been correct under the comparitive refer to note 36 .

6. Cash and cash equivalents

Cash and cash equivalents consist of bank balances for current accounts and call deposit accounts:

	2016 R	2015 R
Bank balances	184,559	901,065
Short-term deposits	1,971,367	20,103,904
	2,155,926	**21,004,969**

Notes to the Annual Financial Statements

	2016 R	2015 R

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
Standard Bank - 208720963 (Primary account)	64,333	992,663	1,687,298	184,541	901,065	277,816
Standard Bank - 285973452	16,415	986	247,018	16,415	985	247,018
Standard Bank - 285946110	-	-	5,701	-	5,701	5,701
Standard Bank - 285977334	-	-	12,828	-	12,831	12,828
Standard Bank - 388520523-401	-	-	1,543	-	1,569	1,543
ABSA Bank - 9079485834	-	10,892	10,830	-	10,830	10,830
Standard Bank - 388528672-004	4,247	1,360	23,726	4,247	1,360	23,726
Standard Bank - 388526734-003	-	-	1,590	-	1,596	1,590
Standard Bank - 388527544-402	4,394	1,906	1,380	4,394	1,906	1,380
Standard Bank - 388523786-001	-	-	1,482	-	1,482	1,482
Standard Bank - 388529768-402	1,937,218	20,056,277	23,049	1,937,218	20,056,277	23,049
Standard Bank - 388528672-002	8,931	5,226	2,104	8,522	5,240	2,104
Standard Bank - 388523786-002	4,757	4,127	-	589	4,127	-
Total	**2,040,295**	**21,073,437**	**2,018,549**	**2,155,926**	**21,004,969**	**609,067**

7. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	71,543,700	-	71,543,700	71,543,700	-	71,543,700

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	71,543,700	71,543,700

Reconciliation of investment property - 2015

	Opening balance	Disposals	Transfers	Total
Investment property	74,253,400	(129,700)	(2,580,000)	71,543,700

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

Notes to the Annual Financial Statements

	2016 R	2015 R

8. 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	84,201,289	-	84,201,289	84,201,289	-	84,201,289
Buildings	133,846,746	(69,520,670)	64,326,076	133,272,020	(66,451,189)	66,820,831
Infrastructure	261,273,512	(141,400,329)	119,873,183	255,188,040	(126,322,105)	128,865,935
Other property, plant and equipment	12,991,325	(6,996,462)	5,994,863	10,553,954	(5,582,765)	4,971,189
Work in progress	25,757,481	-	25,757,481	5,295,571	-	5,295,571
Finance lease assets	1,443,220	(1,082,792)	360,428	1,488,975	(771,878)	717,097
Landfill site asset	9,521,012	(6,821,012)	2,700,000	4,879,296	(1,568,753)	3,310,543
Total	**529,034,585**	**(225,821,265)**	**303,213,320**	**494,879,145**	**(200,696,690)**	**294,182,455**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	84,201,289	-	-	-	-	-	84,201,289
Buildings	66,820,831	537,968	36,758	-	(3,069,481)	-	64,326,076
Infrastructure	128,865,935	-	6,085,472	-	(15,078,224)	-	119,873,183
Other property, plant and equipment	4,971,189	2,437,368	-	-	(1,413,694)	-	5,994,863
Work in progress	5,295,571	26,584,140	-	(6,122,230)	-	-	25,757,481
Finance lease asset	717,097	-	-	-	(356,669)	-	360,428
Landfill site asset	3,310,543	4,641,716	-	-	(553,929)	(4,698,330)	2,700,000
	294,182,455	**34,201,192**	**6,122,230**	**(6,122,230)**	**(20,471,997)**	**(4,698,330)**	**303,213,320**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Transfers	Impairment	Depreciation	Accumulated depreciation on disposals	Total
Land	81,621,289	-	-	2,580,000	-	-	-	-	84,201,289
Buildings	54,982,671	3,399,702	-	12,748,838	-	(1,282,652)	(3,027,728)	-	66,820,831
Infrastructure	140,994,347	2,954,295	(4,821,337)	22,023,146	-	(18,604,762)	(14,426,657)	746,903	128,865,935
Other property, plant and equipment	6,191,031	1,255,402	(2,514,940)	-	(826,075)	(64,803)	930,574	-	4,971,189
Work in progress	32,098,685	7,968,870	-	(34,771,984)	-	-	-	-	5,295,571
Finance lease assets	1,087,677	-	-	-	-	-	(370,580)	-	717,097
Landfill site asset	3,755,926	1,151,810	-	-	-	-	(1,597,193)	-	3,310,543
	320,731,626	**16,730,079**	**(7,336,277)**	**2,580,000**	**(826,075)**	**(19,952,217)**	**(18,491,584)**	**746,903**	**294,182,455**

Assets subject to finance lease (Net carrying amount)

Finance lease assets	360,428	717,097

Notes to the Annual Financial Statements

	2016 R	2015 R

8. Property, plant and equipment (continued)

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

9. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	288,337	(174,411)	113,926	415,072	(374,886)	40,186

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	40,186	170,886	(97,146)	113,926

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	94,993	(54,807)	40,186

10. Other financial liabilities

	2016 R	2015 R
At amortised cost		
Amatole District Municipality Debt arrangement	-	196,994
During the 2013/2014 financial year a debt arrangement was entered into whereby the Municipality undertakes to repay monthly instalments of R98 497 over and above the continuing monthly charge until such time as the outstanding balance is repaid. This arrangement does not bear interest.		
Long term borrowings	1,510,775	1,940,754
The DBSA loan bears interest at 13% and is redeemable on 31 March 2019.		
Total other financial liabilities	**1,510,775**	**2,137,748**
Non-current liabilities		
At amortised cost	1,023,508	1,509,986
Current liabilities		
At amortised cost	487,267	627,762

Notes to the Annual Financial Statements

	2016 R	2015 R

11. Finance lease obligation

Minimum lease payments due		
- within one year	389,750	641,509
- in second to fifth year inclusive	384,913	774,663
	774,663	1,416,172
less: future finance charges	(179,156)	(408,035)
Present value of minimum lease payments	**595,507**	**1,008,137**

Present value of minimum lease payments due		
- within one year	263,987	412,650
- in second to fifth year inclusive	331,520	595,508
	595,507	**1,008,158**

Non-current liabilities	331,520	595,488
Current liabilities	263,987	412,650
	595,507	**1,008,138**

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

The lease terms of finance lease agreements vary from three to five years.

Interest rates are fixed at the contract date. Leases escalate at 10% p.a and no arrangements have been entered into for contigent rent. The interest rate implicit used ranges between 24.56% - 49.14% per annum.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

Depreciation and finance charges relating to leased assets are included in the total depreciation and finance charges respectively.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	595,507	1,008,138

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 37.

The fair value of finance lease liabilities approximates their carrying amounts.

12. Payables from exchange transactions

Trade payables	14,625,097	16,749,444
Payments received in advance	2,949,042	328,041
Dept of transport - MVR	-	116,226
Sundry receipt default account	-	13,322
Accrued leave pay	2,168,861	1,511,351
Accrued bonus	1,173,752	772,592
Deposits received	338,430	255,599
Salary suspense account	1,546,455	1,102,292
Retentions	1,125,601	-
	23,927,238	**20,848,867**

During the period errors noted have been correct under the comparitive refer to note 39.

Notes to the Annual Financial Statements

	2016 R	2015 R

13. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan- Defined contribution plan

The municipality provided certain post-retirement healthcare benefits by funding the medical aid of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operated an unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these employees

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

	2016	2015
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(6,741,000)	(7,084,000)
Current service costs	(738,000)	(678,000)
Interest cost	(752,000)	(738,000)
Net acturial gains or (losses) not recognised	257,000	1,328,000
Benefits paid	248,000	292,000
Long service award	(1,238,000)	(1,099,000)
	(8,964,000)	**(7,979,000)**
Non-current liabilities	(8,257,000)	(7,161,000)
Current liabilities	(707,000)	(818,000)
	(8,964,000)	**(7,979,000)**

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

	2016	2015
Opening balance	6,741,000	7,084,000
Current Service Cost	513,000	-
Interest Cost	632,000	-
Benefits paid	(179,000)	(166,000)
Actuarial Gain	(357,000)	-
Net expense recognised in the statement of financial performance	-	(177,000)
	7,350,000	**6,741,000**

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	6.97 - 10.38%	8.94 %
Consumer price inflation	5.27 %	7.05 %
Medical aid contribution inflation	6.27 %	8.05 %
Net effective discount rate	4.11 %	0.82 %

The basis used to determine the discount rates and CPI assumptions is the nominal and real zero curves as at 30 June 2016 supplied by the JSE.

Notes to the Annual Financial Statements

	2016 R	2015 R

13. Employee benefit obligations (continued)

Other assumptions

Mortality rate

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result due to higher and lower mortality rates by increasing and decreasing mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	7,913,000	7,350,000	6,885,000
Interest Cost	794,000	737,000	689,000
Service Cost	370,000	344,000	321,000
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total Accrued Liability	6,688,000	7,350,000	8,051,000
Interest Cost	670,000	737,000	807,000
Service Cost	322,000	344,000	360,000
	-	-	-

Long service award inflation:

	1% decrease - normal salary inflation R	Valuation Assumption R	1% increase - normal salary inflation R
Defined benefit obligation	1,509,000	1,614,000	1,731,000
Interest Costs	163,000	175,000	188,000
Service Cost	335,000	363,000	395,000

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	20,000,000
EPWP Grant	64	64
INEG Grant	4,632	-
	4,696	**20,000,064**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

	2016	2015
	R	R

15. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4,229,258	4,641,716	296,048	9,167,022

Reconciliation of provisions - 2015

	Opening Balance	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	1,968,682	2,253,189	7,387	4,229,258

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. As at 30 June 2016, the landfill site was closed and the provision for the landfill site is based on the current costs to rehabilitate the landfill site over the remaining 2 years to complete these closing procedures.

16. Service charges

	2016	2015
Sale of electricity	4,174,159	5,742,943
Refuse removal	1,311,186	1,660,400
	5,485,345	**7,403,343**

17. Rental of facilities and equipment

	2016	2015
Premises	127,325	86,765
Rental of facilities	189,480	146,113
	316,805	**232,878**

18. Other income

	2016	2015
Building plan fees	247,110	194,727
LG SETA training allowance	62,450	35,731
Clearance fees	8,397	18,533
Sundry revenue	1,420,324	318,805
Basic electricity	117,198	103,790
Connection fees - electricity	173,469	603,485
Burial fees	2,300	2,456
	2,031,248	**1,277,527**

19. Interest received

	2016	2015
Interest from investments	896,313	271,048
Interest charged on trade and other receivables	4,670,423	6,187,223
	5,566,736	**6,458,271**

Notes to the Annual Financial Statements

	2016 R	2015 R

20. Property rates

Rates received

	2016 R	2015 R
Property rates	17,944,888	19,710,389
Less: Discounts allowed	(944,738)	-
	17,000,150	**19,710,389**

Valuations

	2016 R	2015 R
Commercial	184,566,000	203,289,000
Residential	2,513,552,000	2,801,578,282
Schools	42,010,000	42,010,000
Small holdings and farms	1,020,352,557	1,020,352,557
State	51,284,000	51,284,000
Vacant	167,832,045	167,832,045
	3,979,596,602	**4,286,345,884**

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions

Rates are levied on a monthly basis.

21. Government grants and subsidies

	2016 R	2015 R
Unconditional grants		
Equitable share	42,202,000	36,762,000
Library Subsidy	410,000	410,000
IEC Election Grant	30,875	-
Treasury Grant	1,343,406	1,730,921
	43,986,281	38,902,921
Conditional grants		
Municipal Infrastructure Grant	33,065,000	12,815,000
Municipal Systems Improvement Grant	930,000	934,000
Finance Management Grant	1,875,000	1,800,000
EPWP Grant	1,000,000	999,994
INEG Grant	995,368	-
	37,865,368	16,548,994
	81,851,649	**55,451,915**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2016 R	2015 R
Unconditional grants received	43,986,281	38,902,921
Conditional grants received	37,865,368	16,548,994
	81,851,649	**55,451,915**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. There are no conditions attached to the equitable share and as such is recognised as revenue when received.

Notes to the Annual Financial Statements

	2016 R	2015 R

21. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	20,000,000	-
Current-year receipts	13,065,000	32,815,000
Conditions met - transferred to revenue	(33,065,000)	(12,815,000)
	-	**20,000,000**

Conditions still to be met - remain liabilities (see note 14).

The grant is allocated for the construction of infratructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

INEG Grant

Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(995,368)	-
	4,632	**-**

Conditions still to be met - remain liabilities (see note 14).

The Minerals and Energy Grant is an provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	1,897
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(935,897)
	-	**-**

Conditions still to be met - remain liabilities (see note 14).

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

Financial Management Grant

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

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Notes to the Annual Financial Statements

	2016 R	2015 R

21. Government grants and subsidies (continued)

EPWP Grant

Balance unspent at beginning of year	64	58
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(999,994)
	64	**64**

Conditions still to be met - remain liabilities (see note 14).

This program is aimed at providing poverty and income relief through the creation of temporary work opportunities.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

22. Revenue

Service charges	5,485,345	7,403,343
Rental of facilities and equipment	316,805	232,878
Licences and permits	1,185,825	2,239,630
Commissions received	44,615	38,542
Other income	2,031,248	1,277,527
Interest received	5,566,736	6,458,271
Property rates	17,000,150	19,710,389
Government grants & subsidies	81,851,649	55,451,915
Fines, Penalties and Forfeits	33,300	28,650
	113,515,673	**92,841,145**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	5,485,345	7,403,343
Rental of facilities and equipment	316,805	232,878
Licences and permits	1,185,825	2,239,630
Commissions received	44,615	38,542
Other income	2,031,248	1,277,527
Interest received	5,566,736	6,458,271
	14,630,574	**17,650,191**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	17,000,150	19,710,389
Transfer revenue		
Government grants & subsidies	81,851,649	55,451,915
Fines, Penalties and Forfeits	33,300	28,650
	98,885,099	**75,190,954**

Notes to the Annual Financial Statements

	2016 R	2015 R

23. Employee related costs

Basic	29,976,040	22,679,727
Bonus	2,218,548	1,286,884
Medical aid - company contributions	2,236,612	1,409,057
UIF	235,510	187,450
SDL	358,885	301,058
Other payroll levies	19,202	15,900
Leave pay provision charge	722,467	-
Pension	3,441,094	2,644,974
Travel, motor car, accommodation, subsistence and other allowances	1,568,169	1,342,852
Overtime payments	768,191	726,321
Long-service awards	156,000	164,541
Acting allowances	699,182	519,717
Housing benefits and allowances	349,186	212,994
Post employment benefits expense - Defined benefit	(179,000)	271,000
	42,570,086	**31,762,475**

Include in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

During the period errors noted have been correct under the comparitive refer to note 39.

Remuneration of Municipal Manager - CM Mbekela

Annual Remuneration	-	141,765
Travel, motor car, accommodation, subsistence and other allowances	-	79,619
Contributions to UIF, Medical and Pension Funds	-	297
	-	**221,681**

The Municipal Manager's contract was terminated as from the 14 September 2014.

Remuneration of Chief Finance Officer - M L MOSALA

Annual Remuneration	848,734	546,255
Travel, motor car, accommodation, subsistence and other allowances	18,000	22,621
Contributions to UIF, Medical and Pension Funds	-	2,380
Service bonus	65,604	-
	932,338	**571,256**

Remuneration of Director: Corporate Services - I SIKHULU-NQWENA

Annual Remuneration	425,696	408,193
Travel, motor car, accommodation, subsistence and other allowances	119,867	212,772
Acting allowance	-	29,800
Contributions to UIF, Medical and Pension Funds	-	32,180
	545,563	**682,945**

The Corporate Services Director was acting as municipal manager for 7 months in the current financial period.

Remuneration of Director: Technical Services - JF Van Dalen

Annual Remuneration	617,051	517,504
Travel, motor car, accommodation, subsistence and other allowances	222,845	330,294
Contributions to UIF, Medical and Pension Funds	95,355	3,569
Other	-	1,009
	935,251	**852,376**

Notes to the Annual Financial Statements

	2016 R	2015 R

23. Employee related costs (continued)

Remuneration of Acting Municipal Manager - ZV Mapukata

Acting Allowance	-	119,749
Travel, motor car, accommodation, subsistence and other allowances	-	12,942
	-	**132,691**

Remuneration of Municipal Manager - I SIKHULU-NQWENA

Annual Remuneration	361,850	-
Travel, motor car, accommodation, subsistence and other allowances	85,619	-
Acting Allowance	77,579	-
Service bonus	30,000	-
	555,048	**-**

The former Corporate Services Director was appointed as the Municipal Manager during the current financial period.

24. Remuneration of councillors

Mayor/Speaker	734,233	698,768
Councillors	2,279,407	1,927,344
Councillors' allowances	961,411	979,437
	3,975,051	**3,605,549**

Remuneration of Mayor (Speaker) - N Tekile		
Salary	532,324	504,572
Allowances	201,909	194,196
	734,233	**698,768**

Chief Whip - Ndabambi-Gavumente L		
Salary	205,616	194,261
Allowances	93,407	89,222
	299,023	**283,483**

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

In-kind benefits

The Mayor is a full-time councillor. The mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor holds the position of the speaker as well.

25. Depreciation and amortisation

Property, plant and equipment	20,472,001	17,959,650
Intangible assets	97,146	54,807
	20,569,147	**18,014,457**

Notes to the Annual Financial Statements

	2016 R	2015 R

26. Finance costs

Non-current borrowings	69,185	285,015
Finance leases	228,879	336,228
Interest from fair value adjustments	940,325	745,387
	1,238,389	**1,366,630**

27. Debt impairment

Debt impairment	3,973,336	17,441,995

28. Bulk purchases

Electricity	7,954,154	7,262,361

29. General expenses

Advertising	689,123	436,215
Auditors remuneration	3,415,701	3,001,030
Bank charges	182,135	117,506
Cleaning	43,607	44,102
Commission paid	59,396	645,312
Conferences and seminars	107,673	74,556
Consulting and professional fees	3,686,255	2,271,869
Database cleansing	-	402,991
Electricity	321,482	177,029
Entertainment	149,446	109,409
Finance Management Grant	939,679	1,080,448
Free basic electricity	446,720	290,536
Fuel and oil	852,478	837,622
Insurance	286,517	232,309
LED projects	477,095	117,947
Legal expenses	822,687	1,226,379
Life saving services	285,600	215,891
Magazines, books and periodicals	-	129,596
Membership fees	128,748	109,369
Motor vehicle expenses	82,398	56,591
Other expenses	1,130,661	1,373,076
Postage and courier	261,524	172,629
Project maintenance costs	118,342	446,479
Promotions and sponsorships	45,910	-
Protective clothing	275,117	33,007
Refuse	31,860	65,210
Software expenses	493,362	398,378
Staff welfare	980	-
Subscriptions and membership fees	468,750	873,714
Telephone and fax	1,693,913	1,640,274
Training	424,498	92,539
Travel - local	307,237	478,292
Valuaton costs	624,838	-
Ward Committee expense	85,772	796,890
Water	2,055,178	1,238,351
	20,994,682	**19,185,546**

Notes to the Annual Financial Statements

30. Cash generated from operations

	2016 R	2015 R
Surplus (deficit)	4,235,568	(30,305,758)
Adjustments for:		
Depreciation and amortisation	20,569,147	18,014,457
Loss on sale of assets and liabilities	85,400	3,915,916
Acturial (gain)/loss	(257,000)	(1,380,000)
Discounts allowed	5,874,889	-
Landfill site non cash movement	(4,641,716)	-
Finance costs - Finance leases	228,879	336,228
Finance costs: provisions	(1,281,048)	745,387
Impairment loss on assets	4,698,330	19,952,217
Debt impairment	3,973,336	17,441,995
Movements in retirement benefit obligation	-	(204,000)
Movements in provisions	1,281,048	2,260,576
Other non-cash items	66,112	-
Changes in working capital:		
Inventories	(174,738)	-
Receivables from exchange transactions	(994,369)	1,880,633
Debt Impairment	(3,973,336)	(17,441,995)
Other receivables from non-exchange transactions	(487,648)	(2,039,887)
Payables from exchange transactions	3,078,365	1,050,631
VAT	(289,414)	3,160,886
Unspent conditional grants and receipts	(19,995,368)	19,998,109
Consumer deposits	-	(80,503)
	11,996,437	**37,304,892**

31. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	6,942,421	6,942,421
Other receivables from non-exchange transactions	-	4,310,077	4,310,077
Cash and cash equivalents	2,155,926	-	2,155,926
	2,155,926	**11,252,498**	**13,408,424**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1,510,775	1,510,775
Trade and other payables from exchange transactions	23,927,238	23,927,238
Unspent Conditional Grants	4,696	4,696
Vat Payable	928,321	928,321
	26,371,030	**26,371,030**

2015

Financial assets

	2016 R	2015 R

. Financial instruments disclosure (continued)

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	5,948,052	5,948,052
Other receivables from non-exchange transactions	-	3,822,429	3,822,429
Cash and cash equivalents	21,004,969	-	21,004,969
	21,004,969	**9,770,481**	**30,775,450**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	2,137,748	2,137,748
Trade and other payables from exchange transactions	20,848,867	20,848,867
Unspent Conditional Grants	20,000,064	20,000,064
VAT Payable	1,217,735	1,217,735
	44,204,414	**44,204,414**

32. Auditors' remuneration

	2016	2015
Fees	3,415,701	3,001,030

33. Commitments

Authorised expenditure

	2016	2015
Already contracted for but not provided for		
• Property, plant and equipment	4,832,012	3,635,652
• Community	565,755	135,174
• Other	11,574,049	14,369,827
	16,971,816	**18,140,653**

	2016	2015
Total capital commitments		
Already contracted for but not provided for	16,971,816	18,140,653

This committed expenditure relates to plant and equipment and other expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant funds.

34. Contingencies

	2016	2015
Contingent liabilities		
Mr. G. Deponselle - Contravention of Section 4 of the National Building Regulations Act	-	125,000
Inverlochy Trust Share Block (Pty) Ltd - Conveyancing	-	10,000
Jet Vest/Great Kei Municipality - High court application to set aside deed of sale	1,000,000	1,000,000
LN Mafanya - Illegal building works	-	125,000
Mr G. Naude - Contravention of Section 4 of the National Building Regulations Act	-	125,000
VAN DALEN - Labour matter , former employee is challenging his suspension in Grahamstown HC	300,000	-
Hearing with Municipal Manager	-	190,000
Applications to High Court for compliance/demolition orders for non-compliance building regulations (Gerber/Opi Kopi, Morgan and Trudy Thomas)	250,000	375,000
	1,550,000	**1,950,000**

Uncertainty exists as to the timing or amount of these contingent liabilities and assets.

	2016	2015
	R	R

35. Related parties

Relationships

Councillors	Refer to the list of councillors disclosed under general information. Councillors of the Municipality have relationships with businesses as indicated below:
Nosipho Ngabeyewa	Member of Thunga Trading Co Opt

Councillors, executive management and staff received salaries for services rendered relating to their employment within the Municipality, refer notes 23 and 24. No other related party transactions took place during the year.

36. Prior year adjustments

Receivables from exchange transactions

Error that cannot be corrected retrospectively
During the period it was noted that interest on long outstanding debts was not charged on debtor's accounts from 2010 to September 2013. Due to the financial system limitations, interest for this period cannot be recalculated and therefore, adjusting the prior periods is impracticable. However, from October 2013, interest on long outstanding debts was charged on debtors

Errors that have been corrected retrospectively

During the period, the following errors were also noted:

1. Connection fees were accounted for on a cash basis and this resulted in the understatement of receivables from exchange transactions
2. Refuse removal charges were reversed to incorrect debtor accounts.
3. During the period it was noted that output VAT in the prior period was not appropriately declared. As such an adjustment had to be made to the VAT receivable, corresponding revenue and trade receivables which relate to such input VAT

These errors have been adjusted for in the comparitive and restatements have been performed in the note.

Sundry Debtors
During the period, it was noted that revenue relating to driver licensing and testing centre was not recorded.

This error has been adjusted for in the prior year comparative and restatements have been performed in the note.

Unallocated Sundry Receipts
During the period, it was noted that all sundry debtors were not recoverable and were therefore written off.

This error have been adjusted for in the comparitive and restatements have been performed in the note.

Receivables from non-exchange transactions

Error that cannot be corrected retrospectively
During the period it was noted that interest on long outstanding debts was not charged on debtor's accounts from 2010 to September 2013. Due to the financial system limitations, interest for this period cannot be recalculated and therefore, adjusting the prior periods is impracticable. However, from October 2013, interest on long outstanding debts was charged on debtors.

Errors that have been corrected retrospectively
1. It was noted that there are properties omitted in the 2014/15 General Valuation Roll and this resulted in property rates debtors not being billed on those properties for the 2014/15 financial year.
2. It was further noted that there were transactions which were incorrectly recorded in the assessment rates debtors control account, which overstated debtors from non-exchange transactions.
These errors have been adjusted for in the comparitive and restatements have been performed in the note.

VAT Receivable

During the period it was noted that output VAT provision in the prior period was incorrectly accounted for. As such an adjustment had to be made to the VAT receivable, corresponding revenue and trade receivables which relate to such output VAT provision.

Cash and cash equivalents

During the period, an analysis of cash and cash equivalents was performed and unrecorded transactions in the investment accounts were identified. As a result, cash and been has been corrected in the prior year due to the errors identified.

Property, plant and equipment

36. Prior year adjustments (continued)

During the period, it was noted that certain asset additions were recorded at incorrect amounts due to retention fees not recognized. As such, an adjustment was processed in order to correct the errors and account for omitted property, plant and equipment and also creditors.

Furthermore, in the process of compiling a complete and accurate infrastructure assets register, certain assets were Componentized and this lead to some of the components to be restated at replacement costs. As such, the cost and also the accumulated depreciation of the abovementioned assets were corrected.

In the process of compiling a complete and accurate infrastructure register, certain assets where supporting documentation in the form of invoices for their cost could not found were revalued.

The opening balances of PPE items were restated based on a comprehensive review performed.

Payables from exchange transactions

During the period an investigation of all debtor's accounts with credit balances was performed, from which it was noted that some of the accounts were on credit due to billing reversal duplicates. As such an adjustment was processed in order to correct the errors.

During the period, it was noted that certain asset additions were recorded at incorrect amounts due to retention fees not recognized. As such, an adjustment was processed in order to correct the errors and account for omitted property, plant and equipment and also creditors

These errors have been adjusted for in the comparative and restatements have been performed in the noteThese errors have been adjusted for in the comparative and restatements have been performed in the note.

Revenue from exchange transactions

Other Income

During the period it was noted that connection fees were accounted for on the cash basis and as such, revenue was understated. An adjustment was processed in order to correct the error and account for unrecorded revenue.

It was also noted that building plan deposits were incorrectly recognised as building plan fees .

The error has been corrected in the prior period.

36. Prior year adjustments (continued)

Service charges

During the period, an investigation on debtors with credit balances revealed an error made while reversing refuse charges on debtor accounts. The reversals in other debtor accounts were duplicated and resulted in revenue from service charges being understated. The errors identified were corrected in the prior period.

Rental of facilities

During the period, it was noted that there was income relating to the rental of council houses which was not recognized.

The error has been corrected in the prior period.

License & permits

During the period, it was noted that there was certain transactions of revenue relating to the driver's license and testing centre which was not recorded.

The error has been corrected in the prior year.

Commissions received

During the period, it was noted commission on collection fees was not recorded. Furthermore, output VAT was incorrectly charged on commission on collection fees.

The error has been corrected in the prior period.

Interest received

During the period, it was noted that interest on debtors was charged at incorrect interest rates.

The error has been corrected in the prior period.

Consumer deposits

During the period, it was noted that consumer deposits were incorrectly raised in the prior period as the municipality has never received nor charged consumer deposits from its customers for the services it renders.

The consumer deposits have been written off to correct the error in the prior period.

Accumulated surplus

During the period, errors were noted relating to the prior periods. As a result of the abovementioned erros, the prior year accumulated surplus balance was incorrect.

The balance of the prior year accumulated surplus has been corrected by the effects of the corrections of the prior period errors as detailed below.

Revenue from non-exchange transactions

Property rates

During the period it was noted that there were errors with the rates revenue, where payments were made to the Assessment Rates VOTE and there were debtors who were not billed property rates. As result of this, the errors identified have been corrected in the prior period.

Expenditure

36. Prior year adjustments (continued)

Depreciation and amortisation

During the period it was noted that there was an error property plant and equipment, where certain asset additions that were not recorded, as a result, depreciation on property plant and equipment was understated. The errors identified have been corrected in the prior period.

Remuneration of councillors

During the period, it was noted that telephone expenses were incorrectly allocated to the remuneration of councillors.

The error has been adjusted in the prior period.

Debt impairment

During the period, it was noted that traffic fine debtors were not assessed for impairment. As such, debt impairment in the prior period was undertstated.

This error has been corrected in the prior period comparatives.

General expenditure

During the period, it was noted that there were expenditure items that were incorrectly allocated to rates revenue, councillor remuneration and PPE. as such, general expenditure was understated.

These errors have been corrected in the comparative figures.

Cashflow

As result of the errors note above the cashflow from operating, investing and financing activities had been revised.

36. Prior year adjustments (continued)

Statement of Financial Position

Receivables from exchange transactions

As previously stated	-	3,211,488
Increase in receivables due to understatement of rental of council houses revenue	-	22,987
Increase in receivables due to understatement of connection fees - electricity previously not recorded	-	441,645
Decrease in receivables due to duplicate billing of refuse	-	(149,753)
Increase in receivables due to understatement of output VAT on refuse	-	2,141
Increase in receivables due to understatement of output VAT on electricity	-	28,240
Increase in receivables due to understatement of electricity billed	-	396,419
Decrease in receivables due to revenue forgone - Municipality did not apply NERSA rate for electricity	-	(396,419)
Decrease in receivables due to write-off of irrecoverable debtors - Sundry Debtors	-	(45,271)
Increase in receivables due to understatement of driver licensing and testing centre revenue	-	980,960
Increase in receivables due to unauthorised debits against bank	-	38,700
Decrease in receivables due to refund of unauthorised debits by bank	-	(38,700)
Decrease in receivables due to correction of error on VAT on receivables for 2013-2014	-	(1,834,241)
Increase in receivables due to understatement of VAT on receivables for 2013-2014	-	3,416,897
Decrease in receivables due to correction of error on VAT on receivables for 2014-2015	-	(303,707)
Increase in receivables due to understatement of VAT on receivables for 2014-2015	-	3,651,433
Decrease in receivables due to clearing VAT on receivables for 2013-2014	-	(3,416,897)
Increase in receivables due to understatement of interest on outstanding debtors	-	1,082,657
Decrease in receivables due to revenue forgone - Municipality apply incorrect interest rate on debtors	-	(1,082,657)
Decrease in receivables due to write-off of irrecoverable debtors - Unallocated Sundry Receipts	-	(3,016)
Decrease in receivables due to write-off of irrecoverable debtors - Sundry Receipts Default	-	(83,672)
Increase in receivables due to misallocation of payables to receivables - Dept MVR liabililty	-	15,495
Increase in receivables due to misallocation of payables to receivables - Sundry receipts default	-	13,323
Decrease in receivables due to write off of municipal own debt	-	(1,267,691)
Decrease in debt impairment due to write off of municipal own debt	-	1,267,691
	-	**5,948,052**

Receivables from non-exchange transactions

As previously stated	-	1,925,234
Increase in receivables due to understatement of assessment rates revenue	-	2,594,335
Decrease in receivables due to revenue forgone - Municipality applies incorrect rebate on residential properties	-	(577,185)
Decrease in receivables due to overstatement of assessment rates revenue	-	(48,692)
Decrease in receivables due to overstatement of assessment rates revenue	-	(122,122)
Increase in receivables due to misallocation of refunds	-	79,608
Decrease in receivables due to understatement of debt impairment	-	(28,150)
Decrease in receivables due to overstatement of traffic fines	-	(600)
Decrease in receivables due to write off of municipal own debt	-	(1,120,289)
Decrease in receivables due to write off of municipal own debt (Interest on long outstanding debt)	-	(126,905)
Decrease in debt impairment due to write off of municipal own debt	-	1,247,195
	-	**3,822,429**

36. Prior year adjustments (continued)

VAT Receivable

As previously stated	-	1,492,931
Increase in VAT receivable due to correction of error on output VAT account	-	134,602
Increase in VAT receivable due to output VAT receipts transferred to VAT Control from output VAT account	-	1,425,965
Decrease in VAT receivable due to correction of error on VAT Control	-	(134,602)
Decrease in VAT receivable due to output VAT receipts payable to SARS	-	(1,425,965)
Increase in VAT receivable due to correction of error - incorrect output VAT on debtors as at 30 June 2014	-	1,834,241
Decrease in vat receivable due to output VAT on receivables as at 30 June 2014	-	(3,416,897)
Decrease in VAT receivable due to correction of error on input VAT capital account	-	(127,258)
Decrease in VAT receivable due to input VAT payments transferred to VAT Control from input VAT capital account	-	(2,751,199)
Increase in VAT receivable due to correction of error on input VAT operating account	-	304,155
Decrease in VAT receivable due to correction of error on VAT Control	-	(304,155)
Increase in VAT receivable due to correction of error on VAT Control	-	127,258
Decrease in VAT receivable due to input VAT payments transferred to VAT Control from input VAT operating account	-	(7,284,392)
Increase in VAT receivable due to input VAT payments receivable from SARS	-	10,035,591
Increase in vat receivable due to input VAT on trade payables as at 30 June 2014	-	1,616,110
Decrease in VAT receivables due to correction of error - overstatement of VAT Control	-	(931,640)
Decrease in VAT receivable due to correction of error	-	(51,390)
Decrease in VAT receivable due to correction of error	-	(2,141)
Increase in VAT receivable due to correction of error	-	23,150
Increase in VAT receivable due to output VAT receipts transferred to VAT Control from output VAT account	-	1,136,553
Decrease in VAT receivable due to output VAT receipts payable to SARS	-	(1,136,553)
Increase in receivables due to clearing VAT on receivables for 2013-2014	-	3,416,897
Increase in receivables due to correction of error on VAT on receivables for 2014-2015	-	303,708
Decrease in VAT receivable due to input VAT payments transferred to VAT Control from input VAT capital account	-	(1,180,373)
Increase in VAT receivable due to input VAT payments receivable from SARS	-	1,180,373
Decrease in VAT receivable due to input VAT payments transferred to VAT Control from input VAT operating account	-	(4,264,651)
Increase in VAT receivable due to input VAT payments receivable from SARS	-	4,264,651
Decrease in vat receivable due to output VAT on receivables as at 30 June 2015	-	(3,651,433)
Decrease in vat receivable due to duplication of input VAT on trade payables	-	(11,436)
Decrease in vat receivable due to understatement of output VAT on Connection fees receivable	-	(54,237)
Decrease in vat receivable due to understatement of output VAT on electricity revenue	-	(48,683)
Increase in VAT receivable due to electricity revenue forgone	-	48,683
Decrease in VAT receivable due to duplication of billing reversal	-	(85,666)
Increase in VAT receivable due to output VAT incorrectly recognised on revenue	-	2,787
Decrease in VAT receivable due to understatement of output VAT on drivers licencing testing revenue	-	(120,469)
Increase in VAT receivable due to output VAT incorrecty charged against Building Plan Deposits	-	5,038
Decrease in VAT receivable due to overstatement of VAT Control	-	(1,246,697)
Decrease in VAT receivable due to overstatement of input VAT operating	-	(226,077)
Decrease in VAT receivable due to overstatement of input VAT capital	-	(127,258)
Increase in VAT due to recognition of retention monies	-	12,744
	-	**(1,217,735)**

Cash and cash equivalents

As previously stated	-	20,855,738
Increase in cash & cash equivalents due to deposits previously not recorded	-	845,414
Decrease in cash & cash equivalents due to bank charges previously not recorded	-	(9,836)
Increase in cash & cash equivalents due to interest received previously not recorded	-	3,840

36. Prior year adjustments (continued)

Decrease in cash & cash equivalents due to transfers to primary bank account previously not recorded	-	(705,983)
Decrease in cash & cash equivalents due to transfers to primary bank account previously not recorded	-	(330,750)
Decrease in cash & cash equivalents due to transfers to payments previously not recorded	-	(48,718)
Increase in cash & cash equivalents due to deposits received recorded after year-end	-	330,750
Increase in cash and cash equivalents due to unpaid expenses	-	13,800
Increase in cash and cash equivalents due to recording on unrecognised interest in investment accounts	-	50,714
	-	**21,004,969**

Investment property		
As previously stated	-	74,253,400
Decrease in investment properties due to change in intention - land being used for RDP housing	-	(129,700)
Decrease in investment properties due to transfers to PPE	-	(2,580,000)
	-	71,543,700

Property plant and equipment		
As previously stated	-	244,878,522
Increase in office equipment due to correction of misallocation	-	1,193,247
Decrease in machinery and equipment cost due to removal of duplicates	-	(12,487)
Increase in machinery and equipment accumulated depreciation due to removal of duplicates	-	11,214
Decrease in furniture and equipment cost due to removal of duplicates	-	(60,315)
Increase furniture and equipment accumulated depreciation due to removal of duplicates	-	44,161
Decrease in computer equipment cost due to removal of duplicates	-	(3,656)
Increase computer equipment accumulated depreciation due to removal of duplicates	-	3,656
Decrease in transport assets accumulated depreciation due to correction of disposal depreciation	-	(268,201)
Decrease in transport assets cost due to removal of duplicates	-	(190,813)
Increase in transport assets accumulated depreciation due to removal of duplicates	-	23,170
Increase in infrastructure assets due to recognition of assets previously not recognised	-	91,026
Decrease in infrastructure assets due to under statement of depreciation for buidlings	-	(520,967)
Decrease in infrastructure assets due to understatement in depreciation on buildings 2013-2014	-	(50,038,954)
Increase in infrastructure assets due to understatment of assets 2013-2014	-	60,983,843
Increase in infrastrucuture assets due to the recognition of retention fees not recorded	-	739,127
Increase in infrastrucuture assets due to the recognition of retention fees not recorded 2013-2014	-	6,821,050
Increase in infrastructure assets due to understatement of assets 2013-2014	-	31,514,164
Decrease in infrastructure assets due to understatement of depreciation 2013-2014	-	(14,976,949)
Decrease in infrastructure assets due to understatement of depreciation	-	(1,192,523)
Increase in infrastructure assets due to understatement of assets 2013-2014	-	25,521,335
Decrease in infrastructure assets due to increase in depreciation	-	(4,458,335)
Decrease in infrastructure assets due to overstatement of assets 2013-2014	-	(3,064,052)
Increase in infrastructure assets due to overstatement of accumulated depreciation 2013 -2014	-	2,032,420
Decrease in infrastructure assets due to understatement of depreciation	-	(50,424)
Decrease in infrastructure assets due to overstatement of assets 2013-2014	-	(4,827,026)
Decrease in infrastructure assets due to overstatement of assets 2013-2014	-	(1,224,612)
Decrease in infrastructure assets due to overstatement of assets	-	(202,404)
Decrease in infrastructure assets due to overstatement of assets	-	(1,193,245)
Decrease in infrastructure assets due to changes from CRC to actual on components	-	(743,837)
Increase in infrastructure assets due to changes from CRC to actual on componets accumulated depreciation reduced	-	543,001

36. Prior year adjustments (continued)

Increase in infrastructure assets due to allocation journal as infrastructure was disclosed at the correct ammount 2014-15	-	2,139,232
Decrease in infrastructure assets due to prior year correction of accumulated depreciation Solid waste - Allocation journal as infrastructure was disclosed at the correct ammount 2014-15	-	(840,169)
Increase in movable assets due to recognition of previously unrecorded assets	-	30,149
Increase in movable assets due to recognition of previously unrecorded assets	-	16,227
Decrease in movable assets due to increase in depreciation of previously unrecorded assets	-	(812)
Decrease in infrastructure assets due to understatement in depreciation on buildings 2013-2014	-	(552,162)
Increase in Land due to transfers from Investement property	-	2,580,000
Decrease in work in progress assets due to correction of duplicated retentions	-	(561,145)
	-	**294,182,455**

Payables from exchange transactions

As previously stated	-	22,502,726
Decrease in payables due to duplication of billing reversal	-	(699,368)
decrease in payables due to duplication of billing reversals	-	(149,753)
Decrease in payables due to write-off of take-on balances from previous accounting system	-	(1,950,628)
Decrease in payables due to write-off untraceable receipts	-	(75,140)
Decrease in payables due to write-off take-on balances without movement	-	(10,783)
Increase in payables due to deposits payable to Department of Transport previously not recorded	-	806,714
Decrease in payables due to misallocation of withdrawals from bank	-	(705,983)
Increase in payables due to deposits misallocated to revenue	-	60,724
Decrease in payables due to overstatement of salary suspense	-	(15,849)
Increase in payables due to misallocation of payables to receivables - Dept MVR liabililty	-	15,495
Increase in payables due to misallocation of payables to receivables - Sundry receipts default	-	13,324
Increase in payables due to correction of error	-	4,243
Increase in payables due to invoices not recorded	-	103,772
Increase in infrastrucuture assets due to the recognition of retention fees not recorded 2013-2014	-	739,121
Increase in salary suspense due to understaement of employee related costs	-	236
Increase in salary expense due to correction of duplicate integration	-	247,422
Decrease in salary suspense due to correction of an error	-	(37,406)
	-	**20,848,867**

Consumer deposits

As previously stated	-	80,503
Decrease in consumer deposits due to correction of an error	-	(80,503)
	-	**-**

Accumulated surplus

As previously stated	-	288,720,062
Decrease in accumulated surplus due to write-off of irrecoverable debtors - Sundry Debtors	-	(45,271)
Decrease in accumulated surplus due to write-off of irrecoverable debtors - Unallocated Sundry Receipts	-	(3,016)
Decrease in accumulated surplus due to write-off of irrecoverable debtors - Sundry Receipts Default	-	(83,672)
Increase in accumulated surplus due to write-off of take-on balances from previous accounting system	-	1,950,628

36. Prior year adjustments (continued)

Increase in accumulated surplus due to write-off untraceable receipts	-	75,140
Increase in accumulated surplus due to write-off take-on balances without movement	-	10,783
Decrease in accumulated surplus due to correction of error - overstatement of VAT Control	-	(931,640)
Decrease in accumulated surplus due to input VAT on trade payables as at 30 June 2014 previously not recorded	-	1,616,110
Decrease in accumulated surplus due to overstatement of VAT Control	-	(1,246,697)
Decrease in accumulated surplus due to overstatement of input VAT operating	-	(226,077)
Decrease in accumulated surplus due to overstatement of input VAT capital	-	(127,258)
Increase in accumulated surplus due to understatement of electricity revenue	-	347,736
Increase in accumulated surplus due to duplication of billing reversals	-	611,902
Increase in accumulated surplus due to understatement of rental of council houses revenue	-	22,987
Increase in accumulated surplus due to output VAT incorrectly recognised on revenue	-	2,787
Increase in accumulated surplus due to understatement of driver licensing and testing centre revenue	-	860,491
Increase in accumulated surplus due to revenue previously not recognised	-	15,849
Increase in accumulated surplus due to understatement of connection fees - electricity	-	387,408
Decrease in accumulated surplus due to misallocation of Building Plan Deposits to Building Plan Fees	-	(55,686)
Decrease in accumulated surplus due to duplication of VAT	-	(11,436)
Increase in accumulated surplus due to understatement of interest on outstanding debtors	-	1,082,657
Increase in accumulated surplus due to understatement of interest on bank previously not recorded	-	3,840
Decrease in accumulated surplus due to cash transfer between municipal bank account recognised as revenue	-	(9,260)
Increase in accumulated surplus due to understatement of assessment rates revenue	-	2,594,336
Increase in accumulated surplus due to duplication of billing reversals	-	1,800
Increase in accumulated surplus due to misallocation of expense to revenue	-	15,245
Decrease in accumulated surplus due to correction of error	-	(52,935)
Decrease in accumulated surplus due to correction of error	-	(122,122)
Increase in accumulated surplus due to misallocation refunds to revenue	-	79,608
Increase in accumulated surplus due to misallocation of expense to revenue	-	(15,245)
Decrease in accumulated surplus due to bank charges previously not recorded	-	(10,592)
Decrease in accumulated surplus due to Municipality did not apply NERSA rate for electricity	-	(347,736)
Decrease in accumulated surplus due to - Municipality applies incorrect rebate on residential properties	-	(577,185)
Decrease in accumulated surplus due to - Municipality apply incorrect interest rate on debtors	-	(1,082,657)
Increase in accumulated surplus due to - correction of a misallocation of PPE	-	1,193,247
Decrease in accumulated surplus due to - removal of PPE cost duplicates	-	(267,271)
Increase in accumulated surplus due to - removal of PPE accumulated depreciation duplicates	-	81,697
Decrease in accumulated surplus due to -correction of transport assets accumulated depreciation	-	(268,201)
Decrease in accumulated surplus due to - correction of an error in consumer deposits	-	80,503
Decrease in accumulated surplus due to - increase in debt impairment	-	(28,150)
Decrease in accumulated surplus due to - decrease in infrastructure assets due to under statement of depreciation for buidlings	-	(520,967)
Decrease in accumulated surplus due to - decrease in infrastructure assets due to understatement in depreciation on buildings 2013-2014	-	(50,038,954)
Increase in accumulated surplus due to - increase in infrastructure assets due to understatment of assets 2013-2014	-	60,983,843
Decrease in accumulated surplus due to- decrease in traffic fine debtors	-	(600)
Increase in accumulated surplus due to - increase in infrastructure assets	-	6,821,050
Increase in accumulated surplus due to - increase in infrastructure assets	-	31,514,164
Decrease in accumulated surplus due to understatement of depreciation	-	(14,976,949)

36. Prior year adjustments (continued)

Decrease in accumulated surplus due to understatement of depreciation	-	(1,192,523)
Increase in accumulated surplus due to - increase in infrastructure assets	-	25,521,335
Decrease in accumulated surplus due to understatement of depreciation	-	(4,458,335)
Decrease in accumulated surplus due to understatement of depreciation	-	(3,064,052)
Increase in accumulated surplus due to overstatement of depreciation	-	2,032,927
Decrease in accumulated surplus due to understatement of depreciation	-	(50,424)
Decrease in accumulated surplus due to overstatement of assets	-	(4,827,026)
Decrease in accumulated surplus due to overstatement of assets	-	(1,224,613)
Decrease in accumulated surplus due to overstatement of assets	-	(202,404)
Decrease in accumulated surplus due to overstatement of assets	-	(1,193,245)
Increase in accumulated surplus due to overstatement of general expenditure	-	13,800
Increase in cash and cash equivalents due to recording on unrecognised interest in investment accounts	-	50,714
Decrease in accumulated surplus due to overstatement of movable assets	-	(812)
Decrease in accumulated surplus due to understament of creditors	-	(236)
Increase accumulated surplus due to increase in infrastructure assets due to changes from CRC to actual on componets accumulated depreciation reduced	-	(543,001)
Increase accumulated surplus due to increase in infrastructure assets due to allocation journal as infrastructure was disclosed at the correct ammount 2014-15	-	1,641,228
Increase in accumulated surplus due salary expense of duplicate integration	-	(247,422)
Decrease in salary suspense due to correction of an error	-	37,407
Increase in accumulated surplus due to increase in movable asasets	-	30,149
Increase in accumulated surplus due to increase in movable asasets	-	16,232
Decrease in accumulated surplus due decrease in infrastructure assets due to understatement in depreciation on buildings 2013-2014	-	(552,164)
Drease in accumulated surplus due to decrease in investment properties	-	(129,700)
decrease in accumulated surplus due to correction of duplicated retentions on work in progress assets	-	(561,150)
	-	**339,120,981**

36. Prior year adjustments (continued)

Statement of Financial Performance

Service charges

As previously stated	-	6,443,705
Increase in service charges due to understatement of electricity revenue	-	347,736
Increase in service charges due to duplication of billing reversals of refuse	-	611,902
	-	**7,403,343**

Property rates

As previously stated	-	17,194,458
Increase in property rates due to understatement of assessment rates revenue	-	2,594,335
Increase in property rates due to duplication of billing reversals	-	1,800
Increase in property rates due to misallocation of expense to revenue	-	15,245
Decrease in property rates due to correction of error	-	(52,935)
Decrease in property rates due to correction of error	-	(122,122)
Increase in property rates due to misallocation refunds	-	79,608
	-	**19,710,389**

Interest received

As previously stated	-	5,381,035
Increase in interest received due to understatement of interest on outstanding debtors	-	1,082,656
Increase in interest received due to understatement of interest on bank previously not recorded	-	3,840
Decrease in interest received due to cash transfer between municipal bank account recognised as revenue	-	(9,260)
	-	**6,458,271**

Rental of facilities and equipment

As previously stated	-	209,890
Increase in rental of facilities and equipment due to understatement of rental of council houses revenue	-	22,988
	-	**232,878**

Licences and permits

As previously stated	-	1,379,139
Increase in licenses and permits due to understatement of driver licensing and testing centre revenue	-	860,491
	-	**2,239,630**

Commissions received

As previously stated	-	19,906
Increase in commission received due to output VAT incorrectly recognised on revenue	-	2,787
Increase in commission received due to revenue previously not recognised	-	15,849
	-	**38,542**

Other income

As previously stated	-	957,241
Increase in other income due to understatement of connection fees - electricity	-	387,408
Decrease in other income due to misallocation of Building Plan Deposits to Building Plan Fees	-	(55,686)
Decrease in other income due to duplication of VAT	-	(11,436)
	-	**1,277,527**

36. Prior year adjustments (continued)

Fines		
As previously stated	-	29,250
Decrease in fines due to overstatement of traffic fines	-	(600)
	-	**28,650**
Employee related costs		
As previously stated	-	31,765,908
Decrease in employee related costs due to overpayment of long service bonus	-	(2,459)
Decrease in employee related costs due to overpayment of acting allowance	-	(974)
	-	**31,762,475**
Depreciation and amortisation		
As previously stated	-	11,402,991
Increase in depreciation due to correction of asset additions misallocation	-	268,201
Decrease in depreciation due to removal of asset duplicates	-	(82,201)
Increase in depreciation due to correction of depreciation on infrastructure assets	-	6,424,655
Increase in depreciation due to correction of depreciation on movable assets	-	811
	-	**18,014,457**
Debt Impairment		
As previously stated	-	17,413,845
Increase debt impairment due to traffic fines write off	-	28,150
	-	**17,441,995**
Remuneration of councillors		
As previously stated	-	3,758,754
Decrease in remuneration of councillors due to correction of an error	-	(45,079)
	-	**3,713,675**
General expenditure		
As previously stated	-	(17,935,183)
Increase in general expenditure due to misallocation of expense to revenue	-	(15,245)
Increase in general expense due to bank charges previously not recorded	-	(10,592)
Increase in accumulated surplus due to - correction of a misallocation of PPE	-	(1,193,247)
Decrease in remuneration of councillors due to correction of an error	-	(45,079)
Decrease in general expenditure due to uncashed cheques	-	13,800
	-	**(19,185,546)**
Revenue forgone		
Increase in revenue forgone due to Municipality not applying NERSA rate for electricity	-	(347,736)
Increase in revenue forgone due to incorrect rebate on residential properties granted by the municipality	-	(577,185)
Increase in revenue forgone due to incorrect interest rate on debtors applied by the Municipality	-	(1,082,657)
	-	**(2,007,578)**

36. Prior year adjustments (continued)

Cash flow statement

Net cash flows from operating activities		
As previously stated	-	34,807,885
Correction of prior period errors	-	2,497,007
	-	-
	-	**37,304,892**
Net cash flows from investing activities		
As previously stated	-	(19,356,725)
Correction of prior period errors	-	7,015,391
	-	**(12,341,334)**
	-	-
	-	-
	-	**-**

36. Prior year adjustments (continued)

Disclosure

Unauthorised expenditure for the year		
As previously stated	-	29,757,683
Increase in unauthorised expenditure due to understatement of expenditure	-	(480,069)
	-	**29,277,614**

Irregular expenditure for the year		
As previously stated	-	12,328,030
Increase in irregular expenditure due to understatement of expenditure	-	388,200
	-	**12,716,230**

37. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate 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 by the finance department with the assistance of operating devisions, under policies approved by the accounting officer.

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of financial assets respresent the Municipality's maximum exposure to credit risk in relation to these assets.

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

Financial instrument	2016	2015
Trade and other receivables from exchange transactions	6,942,421	5,948,052
Receivables from non-exchange transactions	4,310,077	3,822,429
Cash and cash equivalents	2,155,926	21,004,969

Market risk

Market risk is the the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Municipality is exposed to market risk through interest rate risk.

37. Risk management (continued)

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The Municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 10 to the annual financial statements.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 6 to the annual financial statements.

The sensitivity analysis below assess the exposure by the Municipality to floating interest rates. Assuming that those financial instruments affected remain unchanged for the full financial year and that all other methods and asumptions used remain unchanged, the impact of a 100 basis point change in the interest rate would result in an increase or decrease of R (2015: R 12,181) in the net surplus for the period.

38. Going concern

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

39. Events after the reporting date

No events having financial implications are requiring disclosure in the annual financial statements occurred subsequent to 30 June 2016.

40. Unauthorised expenditure

Opening balance	29,277,614	22,215,969
Unauthorised expenditure for the year	6,105,852	23,869,839
Less: Amounts written off	(25,295,902)	(16,808,194)
	10,087,564	**29,277,614**

Incident - this is mainly due to inadequate budgeting and monitoring of expenditure. These amounts may not be recoverable as they relate to non-cash expenditure items.

The Council resolved to send the expenditure to MPAC for further investigation.

41. Fruitless and wasteful expenditure

Opening balance	116,158	7,034,619
Fruitless and wasteful expenditure incurred in the current year	38,464	99,501
Less: Amounts written off	(125,135)	(7,017,962)
	29,487	**116,158**

Incident - this is mainly due to interest and penalties charged because of late payments of suppliers.

42. Irregular expenditure

Opening balance	12,716,230	128,624,344
Add: Irregular Expenditure - current year	2,772,956	5,493,490
Less: Amounts written off	(3,274,253)	(121,401,604)
	12,214,933	**12,716,230**

Details of irregular expenditure – written off

The irregular expenditure relates to goods and services which had not been procured in terms of supply chain management precripts during the year.

R115,660,894.00 which is part of the 2014/15 opening balance, was approved for write off by council. In correcting the prior period errors, the municipality revisited the full population related to the prior years. However, for financial periods 2012/13 and prior, it was impracticable to revisit the full population to evaluate the extent of prior period errors identified and reported.The impracticability in 2012/13 was due to staff turnover and insufficient document management, and the lack of a records management policy. Consequently, the municipality is unable to retrospectively restate the opening balance and therefore, wrote off all the amounts that did not have supporting documentation. Prior to concluding on this, the municipality explored all possible options to gain acces to these populations for the financial period 2012/13 and prior.

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Details of irregular expenditure not recoverable (not written off)

SCM processes not followed	12,214,933

43. Deviation from supply chain management regulations

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

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

Deviation in terms of Clause 36(1)(a)	Mayor's Office	Technical and Community Services	Budget and Treasury Office	Strategic Department	Total
Clause 36(1)(a)(ii) Single Provider	-	-	247,129	45,464	292,593
Clause 36(1)(a)(i) Emergency	-	135,004	-	-	135,004
	-	**135,004**	**247,129**	**45,464**	**427,597**

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	579,786	-
Current year subscription / fee	500,000	807,500
Amount paid - current year	(1,079,786)	(227,714)
	-	**579,786**

Material losses

Distribution losses	2,847,453	2,584,658

Audit fees

Opening balance	3,303,074	2,824,019
Current year subscription / fee	3,905,185	3,409,862
Amount paid - current year	(3,840,304)	(1,412,463)
Grants received	(1,343,406)	(1,518,344)
	2,024,549	**3,303,074**

During the year the municipality entered into a repayment arrangement with the external auditors to repay long outstanding debts via instalments over a 24 month period until April 2016.

PAYE and UIF

Opening balance	(795)	-
Current year subscription / fee	5,961,156	4,335,098
Amount paid - current year	(5,452,385)	(4,335,893)
	507,976	**(795)**

Pension and Medical Aid Deductions

Opening balance	7,019	-
Current year subscription / fee	8,694,826	6,971,760
Amount paid - current year	(7,872,727)	(6,964,741)
	829,118	**7,019**

VAT

VAT payable	928,321	1,217,735

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C. .

Councillors' arrear consumer accounts

There were no Councillors that had arrear accounts outstanding for more than 90 days at 30 June 2016. No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015.

45. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

Revenue from exchange transactions

45. Budget differences (continued)

1. Service Charges – are lower than they were anticipated by R5,485,345 and this is due to properties that were not identified and billed.
2. Licenses and permits are budgeted for at R2,580,000, the actual received for this service is R1,185,825 which is R1,394,175 less than it was budgeted to be received. This is due to inaccurate budgeting for this service.
3. Commission received – was not budgeted for and the amount actually received on behalf of Department of Transport was R44 615.
4. Other income received is below what was budgeted for due to over budgeting on some of items under this vote.
5. Interest received – Interest has been under budgeted by R1,517,736, the budget will be adjusted upwards for the following years.

Revenue from non-exchange transactions

1. Property rates are over budget by R5,499,850 and this is due to budget based on inaccurate valuation roll

Expenditure

1. Personnel costs are R3,930,914 below budget due to the higher than expected vacancy rate during the period. There were also vacant funded positions that were not filled during this period.
2. Remuneration of councillors is R115,576 over budget, the variance will be adjusted for when budgeting for the following years.
3. Depreciation and amortisation is R5,569,147 over budget, this is due to assets that were not recognised by the municipality in the prior year that were added to the fixed asset register. The budget was thus based on low cost base.
4. Finance costs are R5,218,105 over budget, this is due to finance charges on rental of machines that was not taken into account in the previous years.
5. Bad debts written off are R11,894,970 over budget, municipality has anticipated more on this item, due to high debtors book.
6. Bulk electricity is R454,154 over budget, this is due to lower than expected usage of electricity during the year.
7. General Expenses are R12,272,003 below budget, due to a lower than expected expenditure during the year.
8. Loss on disposal of assets and liabilities is R85,400 over budget because at the time of budget preparation, municipality did not anticipate if there were any assets to be sold.

Statement of Financial Position

Assets

1.Inventories – the municipality has over budgeted for inventories but some were written off in the prior years
2. Receivables from exchange transactions – These were not budgeted for in the correct line item during the financial year.
3. Receivables from non-exchange transactions - These were not budgeted for in the correct line item during the financial year.
4. Consumer debtors – no movement on this account.
5. Cash and cash equivalent is below budget – this is due to movements during the year.
6. Investment properties – The municipality updated its asset register and there were no major movements in investment properties.
7. Property, Plant & Equipment – The actual is higher than budget, this is due to additions in assets and some revaluation in municipal properties.
8. Intangible assets – Actual is below budget because there were no major additions.

Liabilities

Cuurent Liabilities

9. Other Financial Liabilities (actual is below budget): The municipality anticipated a bigger reduction in its long outstanding creditors.
10. Finance lease obligation – not budgeted for, no budget was set aside as some lease agreements were expiring before the year end.
11. Payable from exchange transactions – Payable from exchange increased because of payments received in advance and leave accrual.
12. Vat Payable – was not budgeted for, but due to high amount of unpaid debtors at year end the municipality has vat liability.
13. Employee benefit obligation – not budgeted for, the obligation is not considered during the budget process.
14. Provisions, there are no movements in the provisions during the year.
15. Consumer deposits, there are no movements in the consumer deposits during the year.

45. Budget differences (continued)

Non-Current Liabilities

1. Other financial liabilities – Actual is less than the budget, due to a decrease in the amount for long term loan.
2. Finance lease obligation and employee benefit obligation – not budgeted for during budget process year.

Cash Flow Statement

1.Sale of goods and services – actual is less than budget, there is a high rate of non – payments of municipal accounts by customers.
2. Grants - were received in full during the year, however the difference is due to MIG amount actually received in 2014/15.
3. Interest Income – actual is higher than budget because of the under budgeting for interest from debtors.
4. Finance costs – Actual is over budget due to finance costs charged on fair value adjustment on landfill site and actuarial valuations.
5. Purchase of Property Plant and Equipment – Actual is less than budget due to infrastructure assets still unpaid or under commitments.
6. Proceeds from sale of assets – there was no movements because there were no assets sold this year.
7.Purchase of other intangible assets – these were not budgeted for during the current year.