CHRIS HANI DISTRICT MUNICIPALITY
Financial statements
for the year ended 30 June 2016

General Information

Nature of business and principal activities	Chris Hani District Municipality is a South African Category C Municipality (District Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) The municipality's operations are governed by: - Municipal Finance Management act 56 of 2003 - Municipal Structure Act 117 of 1998 - Municipal Systems Act 32 of 2000 and various other acts and regulations
Mayoral committee	
Executive Mayor	M.C. Koyo
Portfolio Heads	N.G. Xoseni: Speaker
	L. Nkwentsha - Gunuza : Chief Whip
	W.T. Bikwana: Finance
	N.G. Magwashu: Health and Community Services
	S.D. Plata : Technical Services
	Z.R. Shweni : Integrated Planning and Econimic Development
	L.E. Noqha : SPU & HIV & AIDS Co-Ordinating Committee
	M.R. Xuma : Corporate Services
Councillors	V.A. Bokuva
	N. Goniwe
	M. Jentile
	L. Jiyose
	N. Makanda
	N. Nyukwana
	K. Vimbayo
	M. Bennett
	M.N. Bula
	Z.C. Deliwe
	S.R.Dyanti
	F. Erasmus
	W. Gela
	D. Kalolo
	T. Kulashe
	S.Liwani
	K. Mdleleni
	Z. Madyolo
	P.P. Mandile
	S. Mbolo
	A.Z. Mdwayingana
	S. Myataza
	N.S. Ndlebe
	H. Nobongoza
	N.P. Nquma
	S. Ntakana
	N. Klaas
	N. Radzilani
	N. Roskruge
	R.W. Venske
	LE. Gubhula
	N. Matiwane
	S. Twani

General Information

Grading of local authority	Grade 5
Accounting Officer	M. A. Mene
Registered office	15 Bells Road Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor-General South Africa

Index

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

Index	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9
Accounting Policies	10 - 40
Notes to the Financial Statements	41 - 87

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
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 (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The financial statements set out on pages 5 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

M.A.Mene
Accounting Officer

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	9	7,066,006	7,977,093
Receivables from non-exchange transactions	10	28,723,988	17,761,650
VAT receivable	11	76,073,387	31,131,737
Prepayments	8	10,449,832	25,801,373
Receivables from exchange transactions	12	111,349,407	336,194,940
Cash and cash equivalents	13	358,170,563	394,054,314
		591,833,183	**812,921,107**
Non-Current Assets			
Property, plant and equipment	3	3,829,134,754	3,367,735,368
Intangible assets	4	389,530	546,467
Non - current Investments	5	1,500,000	1,500,000
		3,831,024,284	**3,369,781,835**
Total Assets		**4,422,857,467**	**4,182,702,942**
Liabilities			
Current Liabilities			
Operating lease liability	6	50,732	14,011
Payables from exchange transactions	18	138,486,441	130,184,764
Employee benefit obligation	7&16&17	8,686,392	9,746,097
Unspent conditional grants and receipts	15	81,293,691	44,737,365
Bank overdraft	13	-	42,480,556
		228,517,256	**227,162,793**
Non-Current Liabilities			
Employee benefit obligation	7	43,242,664	37,297,419
Total Liabilities		**271,759,920**	**264,460,212**
Net Assets		**4,151,097,547**	**3,918,242,730**
Accumulated surplus	14	4,151,097,547	3,918,242,730

* See Note 43

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	335,759,616	185,225,386
Other income	23	76,287,909	70,044,345
Interest received - investment	29	37,939,612	26,116,489
Total revenue from exchange transactions		**449,987,137**	**281,386,220**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	22	1,204,426,120	1,104,305,428
Transfer of Water and Sanitation services	40	-	449,141,147
Total revenue from non-exchange transactions		**1,204,426,120**	**1,553,446,575**
Total revenue	20	**1,654,413,257**	**1,834,832,795**
Expenditure			
Employee related costs	26	(237,460,873)	(210,046,925)
Remuneration of councillors	27	(9,630,879)	(7,718,320)
Depreciation and amortisation	30	(158,076,997)	(122,207,064)
Finance costs	31	(734,792)	(381,440)
Debt Impairment	28	(522,558,497)	(341,464,519)
Repairs and maintenance	34	(51,076,779)	(13,127,361)
Bulk purchases	36	(22,585,217)	(14,344,034)
Contracted services	33	(11,382,977)	(13,064,696)
Grants and subsidies paid	35	(248,839,820)	(217,193,433)
General Expenses	24	(157,651,057)	(125,793,645)
Total expenditure		**(1,419,997,888)**	**(1,065,341,437)**
Operating surplus	25	**234,415,369**	**769,491,358**
Loss on disposal of assets and liabilities		(1,560,555)	-
Surplus for the year		**232,854,814**	**769,491,358**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3,554,394,191	3,554,394,191
Adjustments		
Prior year adjustments	(405,642,816)	(405,642,816)
Balance at 01 July 2014 as restated*	**3,148,751,375**	**3,148,751,375**
Changes in net assets		
Surplus for the year	769,491,358	769,491,358
Total changes	769,491,358	769,491,358
Balance at 01 July 2015 as restated*	**3,918,242,733**	**3,918,242,733**
Changes in net assets		
Surplus for the year	232,854,814	232,854,814
Total changes	232,854,814	232,854,814
Balance at 30 June 2016	**4,151,097,547**	**4,151,097,547**
Note(s)		

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		74,693,201	48,106,293
Grants		1,204,426,120	1,104,305,428
Interest income		37,939,612	26,116,489
		1,317,058,933	1,178,528,210
Payments			
Employee costs		(247,091,752)	(217,765,245)
Suppliers		(441,792,302)	(373,173,511)
Finance costs		(734,792)	(381,440)
		(689,618,846)	(591,320,196)
Net cash flows from operating activities	37	**627,440,087**	**587,208,014**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(620,880,003)	(598,424,528)
Cash flows from financing activities			
Finance lease payments		36,721	35,506
Net increase/(decrease) in cash and cash equivalents		**6,596,805**	**(11,181,008)**
Cash and cash equivalents at the beginning of the year		351,573,758	362,754,756
Cash and cash equivalents at the end of the year	13	**358,170,563**	**351,573,748**

* See Note 43

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	222,367,000	(62,000,000)	**160,367,000**	335,759,616	**175,392,616**	1
Rental of facilities and equipment	954,513	(954,513)	**-**	-	**-**	
Other income - (rollup)	45,859,000	954,558	**46,813,558**	76,287,909	**29,474,351**	2
Interest received - investment	28,988,000	281	**28,988,281**	37,939,612	**8,951,331**	3
Total revenue from exchange transactions	**298,168,513**	**(61,999,674)**	**236,168,839**	**449,987,137**	**213,818,298**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,238,131,000	129,754,000	**1,367,885,000**	1,204,426,120	**(163,458,880)**	4
Total revenue	**1,536,299,513**	**67,754,326**	**1,604,053,839**	**1,654,413,257**	**50,359,418**	
Expenditure						
Personnel	(259,220,000)	(7,269,458)	**(266,489,458)**	(237,460,873)	**29,028,585**	5
Remuneration of councillors	(10,923,000)	1,213,161	**(9,709,839)**	(9,630,879)	**78,960**	6
Depreciation and amortisation	(115,434,000)	(28,273,500)	**(143,707,500)**	(158,076,997)	**(14,369,497)**	7
Debt impairment	(100,065,000)	(247,000,000)	**(347,065,000)**	(522,558,497)	**(175,493,497)**	8
Finance costs	-	(1,319,758)	**(1,319,758)**	(734,792)	**584,966**	9
Repairs and maintenance	(31,716,000)	(20,946,604)	**(52,662,604)**	(51,076,779)	**1,585,825**	10
Bulk purchases	(25,822,000)	5,231,719	**(20,590,281)**	(22,585,217)	**(1,994,936)**	11
Contracted Services	(20,672,000)	8,400,989	**(12,271,011)**	(11,382,977)	**888,034**	12
Government grants and subsidies	(20,658,000)	(262,912,164)	**(283,570,164)**	(248,839,820)	**34,730,344**	13
General Expenses	(377,236,000)	199,334,789	**(177,901,211)**	(157,651,057)	**20,250,154**	14
Total expenditure	**(961,746,000)**	**(353,540,826)**	**(1,315,286,826)**	**(1,419,997,888)**	**(104,711,062)**	
Operating surplus	**574,553,513**	**(285,786,500)**	**288,767,013**	**234,415,369**	**(54,351,644)**	
Profit on disposal of assets and liabilities	2,500,000	(1,500,000)	**1,000,000**	14,798	**(985,202)**	
Loss on disposal of assets	-	-	**-**	(701,594)	**(701,594)**	
	2,500,000	**(1,500,000)**	**1,000,000**	**(686,796)**	**(1,686,796)**	
Surplus before taxation	**577,053,513**	**(287,286,500)**	**289,767,013**	**233,728,573**	**(56,038,440)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**577,053,513**	**(287,286,500)**	**289,767,013**	**233,728,573**	**(56,038,440)**	

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Transfer of functions between entities not under common control

Definitions

An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that obtains control of the acquiree or transferor.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or a residual interest to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Control is the power to govern the financial and operating policies of another entity so as to obtain benefit from its activities.

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 function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity’s objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Non-controlling interest is the interest in the net assets of a controlled entity not attributable, directly or indirectly, to a controlling entity.

Owners (for the purposes of this Standard), is used broadly to include holders of residual interests.

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

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

1.2 Transfer of functions between entities not under common control (continued)

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

The acquisition method

The municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method.

Applying the acquisition method requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising the difference between (c) and the consideration transferred to the seller.

Identifying the acquirer

For each transfer of functions between entities not under common control, one of the combining entities is identified as the acquirer.

The terms and conditions of a transfer of functions undertaken between entities not under common control are set out in a binding arrangement.

Determining the acquirer includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the acquisition date

The acquirer identifies the acquisition date, which is the date on which it obtains control of the acquiree.

All relevant facts and circumstances are considered in identifying the transfer date.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

As of the acquisition date, the municipality as acquirer recognises, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

Recognition conditions:

To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the acquisition date.

In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the municipality as acquirer and the acquiree (or its former owners) agreed in the binding arrangement rather than the result of separate transactions.

Operating leases:

The municipality as acquirer recognises no assets or liabilities related to an operating lease in which the acquiree is the lessee.

The municipality as acquirer determines whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The municipality as acquirer recognises an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms.

1.2 Transfer of functions between entities not under common control (continued)

An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms.

Intangible assets:

The municipality as acquirer separately recognises the identifiable intangible assets acquired in a transfer of functions. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal right criterion.

Classifying or designating identifiable assets acquired and liabilities assumed in a transfer of functions:

At the acquisition date, the municipality as acquirer classifies or designates the identifiable assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequent to the acquisition date. The municipality as acquirer makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions as they exist at the acquisition date.

Measurement principle

The municipality as acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Non-controlling interest in an acquiree:

For each transfer of functions, the municipality as acquirer measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:
- fair value; or
- the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

Assets with uncertain cash flows (valuation allowances):

The municipality as acquirer does not recognise a separate valuation allowance as of the acquisition date for assets acquired in a transfer of functions that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure.

Assets subject to operating leases in which the acquiree is the lessor:

In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the municipality as acquirer takes into account the terms of the lease.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality as acquirer reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality as acquirer retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the municipality as acquirer also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the municipality as acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the acquisition date.

Accounting Policies

1.2 Transfer of functions between entities not under common control (continued)

Determining what is part of the transfer of functions transaction

The municipality as acquirer and the acquiree may have a pre-existing relationship or other arrangement before or when negotiations for the transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from the transfer of functions. In either situation, the municipality as acquirer identifies any amounts that are not part of what the municipality as acquirer and the acquiree (or its former owners) exchanged in the transfer of functions. The acquirer recognises as part of applying the acquisition method only the consideration transferred (if any) for the acquiree and the assets acquired and liabilities assumed by the municipality as acquirer in the transfer of functions as governed by the terms and conditions of the binding arrangement.

Effective settlement of a pre-existing relationship between the municipality as acquirer and acquiree in a transfer of functions

A pre-existing relationship between the municipality as acquirer and acquiree may be contractual or non-contractual.

If the transfer of functions in effect settles a pre-existing relationship, the municipality as acquirer recognises a gain or loss, measured as follows:
(a) for a pre-existing non-contractual relationship, fair value.
(b) for a pre-existing contractual relationship, the lesser of (i) and (ii):
(i) the amount by which the binding arrangement is favourable or unfavourable from the perspective of the municipality as acquirer when compared with terms for current market transactions for the same or similar items.
(ii) the amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the contract is unfavourable.
If (ii) is less than (i), the difference is included as part of the transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the municipality as acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

A pre-existing relationship may be a contract that the municipality as acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the municipality as acquirer recognises, separately from the transfer of functions, a gain or loss for the effective settlement of the contract.

Acquisition-related costs:

Acquisition-related costs are costs the municipality as acquirer incurs to effect a transfer of functions. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities (if applicable). The municipality as acquirer accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities (if applicable) are recognised in accordance with the Standard of GRAP on Financial instruments.

Subsequent measurement and accounting

In general, an municipality as acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.

1.3 Significant judgements and sources of estimation uncertainty

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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 the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and 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. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

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

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

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

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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 is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the 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.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

1.4 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Buildings		
• Improvements		5 - 30 years
Plant and equipment		2 - 15 years
Furniture and fixtures		3 - 15 years
Motor vehicles		4 - 15 years
Office equipment		3 - 15 years
IT equipment		3 - 10 years
Infrastructure		
• Roads and Paving		3 - 100 years
• Security measures		7 - 25 years
• Sewerage		7 - 60 years
Community		
• Community facilities		5 - 30 years
• Recreational facilities		10 - 30 years
Emergency equipment		3 - 10 years
Bins and containers		5 - 15 years
Specialised vehicles		10 - 15 years

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

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

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

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

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

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

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

1.5 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.

1.5 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

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
Licenses	2 - 5 years
Computer software, other	2 - 5 years

1.6 Non - current Investments

In the municipality's separate financial statements, investments in non - current investments are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated financial statements, are accounted for in the same way in the controlling entity's separate financial statements.

1.7 Financial instruments

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

1.7 Financial instruments (continued)

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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.

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

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:

- 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.

1.7 Financial instruments (continued)

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
Long term receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
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
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

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.

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

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

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

Accounting Policies

1.7 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.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The entity 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:

Accounting Policies

1.7 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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.

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

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

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

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

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

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

Financial liabilities

The 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.

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

Accounting Policies

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another 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.

1.8 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.9 Inventories

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

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

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

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

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

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

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

The cost of inventories is assigned using the 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.

1.10 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:

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

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.

1.10 Impairment of cash-generating assets (continued)

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.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.10 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.

1.11 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.

1.11 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.

Restoration cost approach

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

Service units approach

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

1.11 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.

1.12 Share capital / contributed capital

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

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Accounting Policies

1.13 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

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

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

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

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

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

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

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

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

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

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities 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 entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.14 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.

1.14 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 constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

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

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

1.14 Provisions and contingencies (continued)

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

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

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

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 1.10 and 1.11.

If the related asset is measured using the revaluation model:

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

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

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

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the 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.

1.15 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 .

Interest, royalties and dividends

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

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

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

1.16 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.

1.16 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

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.

1.16 Revenue from non-exchange transactions (continued)

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.

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.

1.17 Investment income

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

1.18 Borrowing costs

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

1.19 Comparative figures

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

1.20 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.

1.21 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.

1.22 Irregular expenditure
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

1.22 Irregular expenditure (continued)

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

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

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

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

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

1.23 Use of estimates

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

1.24 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.24 Internal reserves (continued)

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

Donations and public contributions reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.25 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.26 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 embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Budget information

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

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

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

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

Accounting Policies

1.27 Budget information (continued)

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

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

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.28 Related parties

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

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

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

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.29 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the South African Revenue Services is included as part of receivables or payables in the Statement of Financial Position.

1.30 Capital Commitments

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

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements.

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:

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 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.

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 financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling 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.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

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 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

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.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.

Notes to the Financial Statements

2. New standards and interpretations (continued)

- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

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 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset’s service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Notes to the Financial Statements

2. New standards and interpretations (continued)

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2019 financial statements.

3. 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	57,855,600	(7,472,391)	50,383,209	57,855,600	(6,577,288)	51,278,312
Infrastructure	3,293,569,462	(665,430,795)	2,628,138,667	2,808,693,326	(523,096,973)	2,285,596,353
Other property, plant and equipment	100,144,804	(43,508,099)	56,636,705	87,360,245	(29,635,702)	57,724,543
Work in progress	1,093,976,173	-	1,093,976,173	973,136,160	-	973,136,160
Total	**4,545,546,039**	**(716,411,285)**	**3,829,134,754**	**3,927,045,331**	**(559,309,963)**	**3,367,735,368**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2016

	Opening balance	Additions	Disposals (cost)	Disposals (accumulated depreciation)	Transfers	Other changes (transfers in cost)	Other changes (transfers in accumulated depreciation)	Depreciation	Total
Land and buildings	51,278,312	-	-	-	-	-	-	(895,103)	50,383,209
Infrastructure	2,285,596,353	4,555,763	-	-	480,320,373	-	-	(142,333,822)	2,628,138,667
Other property, plant and equipment	57,724,543	15,220,918	(2,518,920)	1,797,544	-	(759,636)	(135,759)	(14,691,985)	56,636,705
Work in progress	973,136,160	601,160,386	-	-	(480,320,373)	-	-	-	1,093,976,173
	3,367,735,368	**620,937,067**	**(2,518,920)**	**1,797,544**	**-**	**(759,636)**	**(135,759)**	**(157,920,910)**	**3,829,134,754**

Reconciliation of property, plant and equiment - June 2015

	Opening balance	Additions	Assets still in use (Cost)	Transfers	Assets still in use (Accumulated depreciation)	Depreciation	Total
Land and Buildings	52,173,414	-	-	-	-	(895,102)	51,278,312
Infrastructure	2,107,751,877	-	-	291,450,435	-	(113,605,959)	2,285,596,353
Other property, plant and equipment	55,050,752	9,837,221	2,542,460	-	(2,368,703)	(7,337,187)	57,724,543
Work in progress	642,045,010	622,541,585	-	(291,450,435)	-	-	973,136,160
	2,857,021,053	**632,378,806**	**2,542,460**	**-**	**(2,368,703)**	**(121,838,248)**	**3,367,735,368**

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.

The municipality applies the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets to assess whether items of Property, Plant and Equipment are impaired through a review of the carrying amounts of assets against the recoverable amounts for each asset. At 30 June 2016, no assets were assessed to be impaired.

The comparative figure for Property, Plant and Equipment has been restated to take into account the incorrect classification of DHS unblocking expenditure, the understatement of accruals and a correction of retentions. Refer to notes 43&44

Notes to the Financial Statements

Figures in Rand	2016	2015

4. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	3,433,400	(3,043,870)	389,530	3,452,611	(2,906,144)	546,467

Reconciliation of intangible assets - June 2016

	Opening balance	**Other changes (cost)**	**Other changes (accumulated amortisation)**	**Amortisation**	**Total**
Computer software, other	546,467	(19,211)	18,362	(156,088)	389,530

Reconciliation of intangible assets - June 2015

	Opening balance	**Amortisation**	**Total**
Computer software, other	915,282	(368,815)	546,467

5. Non - current Investments

Name of company	**Held by**	**% holding June 2016**	**% holding June 2015**	**Carrying amount June 2016**	**Carrying amount June 2015**
Chris Hani Development Agency	Chris Hani District Municipality	100.00 %	100.00 %	1,500,000	1,500,000

The carrying amounts of controlled entities are shown net of impairment losses.

Chris Hani Development Agency

The district municipality has a 100% shareholding in Chris Hani Development Agency. The purpose of the municipal entity is to carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District. The municipal entity was fully operational during the 12 months and all contributions made by the district municipality were treated as Grants and Subsidies paid. Refer to note 35

6. Operating lease liability/asset

Operating Leases are recognised on a straight line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

	2016	2015
Balance at the beginning of the year	(14,011)	21,495
Operating lease expense recorded	2,443,790	2,552,092
Operating lease payments effected	(2,480,511)	(2,587,598)
	(50,732)	**(14,011)**

Notes to the Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations

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

	2016	2015
Carrying value		
Post Retirement Medical Obligations	(35,058,915)	(32,216,006)
Long Service Awards	(10,962,326)	(9,701,983)
Staff Bonus Accrual	(4,989,860)	(4,287,478)
Performance Bonus provision	(917,955)	(838,049)
	(51,929,056)	**(47,043,516)**
Non-current liabilities	(43,242,664)	(37,297,419)
Current liabilities	(8,686,392)	(9,746,097)
	(51,929,056)	**(47,043,516)**

Refer to note 16 for the disclosure relating to the Non-current and current portions of the Long Service Awards.

Refer to note 17 for the disclosure relating to the staff leave accrual, staff bonus accrual and the performance bonus provision current liabilities.

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

	2016	2015
Opening balance	32,216,006	27,957,000
Benefits paid	(1,113,516)	(1,418,000)
Net expense recognised in the statement of financial performance	3,968,054	5,677,006
	35,070,544	**32,216,006**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	1,533,511	1,002,000
Interest cost	2,859,591	2,483,000
Actuarial (gains) losses	(425,048)	2,192,006
	3,968,054	**5,677,006**

Calculation of actuarial gains and losses

	2016	2015
Actuarial (gains) losses – Obligation	(425,048)	2,192,006

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	9.70 %	9.03 %
Net effective discount rate	9.70 %	0.82 %
Consumer price inflation	7.34 %	10.10 %
Health care cost inflation rate	8.84 %	8.14 %

Other assumptions

Amounts for the current and previous four years are as follows:

	2016 **R**	**2015** **R**	**2014** **R**	**2013** **R**	**2012** **R**
Defined benefit obligation	35,070,544	32,216,006	27,957,000	26,169,074	21,766,827
Surplus (deficit)	35,070,544	32,216,006	27,957,000	26,169,074	21,766,827
Experience adjustments on plan liabilities	2,854,538	4,393,102	3,847,353	5,329,200	(1,481,847)

Notes to the Financial Statements

Figures in Rand	2016	2015

7. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

Cape joint pension fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the fund had a deficit of R58,9 (30 June 2010: surplus of R0,0) million, with a funding level of 98,1% (30 June 2010: 100,0%). The balance of the Solvency Reserve was R4,9 (30 June 2010: R4,9) million. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is less than the recommended contribution rate of 32,4%.

Government Employees Pension Fund (GEPF)

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 31 March 2010.

The statutory valuation performed as at 31 March 2010 revealed that the fund had a surplus of R0,0 (31 March 2008: R0,0) million, with a funding level of 100,0% (31 March 2008: 100,0%). The contribution rate paid by the members (7,50%) and the municipalities (13,00%) is sufficient to fund the benefits accruing from the fund in the future.

South African Local Authorities Pension Fund (SALA)

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 1 July 2010.

The statutory valuation performed as at 1 July 2010 revealed that the fund had a deficit of 307,6 (1 July 2009: Deficit of R264,2) million, with a funding level of 96% (1 July 2009: 96%). The contribution rate paid by the members (7,50% to 9,00%) and the municipalities (15,00% to 20,80%) is is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R9 869 (30 June 2010: R8 220) million, with funding levels of 100,3% and 116,9% (30 June 2010: 99,9% and 100,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

SAMWU (South African Municipal Workers Union) National Provident Fund

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2005.

The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002): 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

8. Prepayments

The prior year figure for Prepayments has been restated to take into account the connection of projects not previously recognised.

Payments made in advance		
Payments made in advance	10,449,832	25,801,372

Notes to the Financial Statements

Figures in Rand	2016	2015

9. Inventories

Unsold water inventory	391,852	493,900
Consumables stores	528,660	603,100
Maintenance materials	913,894	1,164,476
Spare parts	5,231,600	5,715,617
	7,066,006	**7,977,093**

10. Sundry Receivables from non-exchange transactions

Sundry receivables	13,082,530	13,214,772
Sundry deposits	5,805,276	3,279,008
Government grants and subsidies - Interdepartment Debtors National	8,760,181	933,078
Sundry debtors	1,076,001	334,792
	28,723,988	**17,761,650**

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	28,723,988	17,761,650

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

Opening balance	-	745,476
Provision for impairment	166,756	-
Unused amounts reversed	-	(745,476)
	166,756	**-**

Sundry receivables consists of Government subsidy claims such as Primary Health Care 2010/2011; Roadworks Subs 2001/2002, Dept of Health - EHP; DAFF (Dept Agriculture Fisheries & Forestry); Pensioners and Salary debtors.

The comparative figure for Receivables from exchange transactions has been restated to take into account the VAT implications of the correction of debtors relating to Roadworks Subs 2001/2002. Refer to note 43

11. VAT receivable

VAT	76,073,387	31,131,737

The comparative figure for VAT receivable has been restated to take into account the VAT implications of the correction of an understatement in accruals in the prior year. Refer to note 43

12. Receivables from exchange transactions

Gross balances		
Water	668,585,550	408,929,890
Sewerage	299,818,179	261,925,247
Service Debtors	6,801,939	6,804,322
	975,205,668	**677,659,459**

Less: Allowance for impairment		
Impairment: Service Charges	(341,464,519)	(341,464,519)
Impairment: Service Charges	(522,391,742)	-
	(863,856,261)	**(341,464,519)**

Notes to the Financial Statements

Figures in Rand	2016	2015

12. Receivables from exchange transactions (continued)

Net balance		
Water	668,585,550	408,929,890
Sewerage	299,818,179	261,925,247
Service debtors	6,801,939	6,804,322
Debt impairment	(341,464,519)	(341,464,519)
Other (specify)	(522,391,742)	-
	111,349,407	**336,194,940**

Water		
Current balance	180,373,390	-
31 - 60 days	61,791,259	-
61 - 90 days	13,016,971	-
91 - 120 days	14,322,055	-
121 - 365 days	399,081,875	-
> 365 days	-	408,929,890
	668,585,550	**408,929,890**

Sewerage		
Current balance	8,054,634	-
31 - 60 days	3,807,294	-
61 - 90 days	3,782,553	-
91 - 120 days	3,760,858	-
121 - 365 days	275,026,293	-
> 365 days	5,386,547	261,925,247
	299,818,179	**261,925,247**

Service Debtors		
Current (0 -30 days)	14,601	-
31 - 60 days	5,058	-
61 - 90 days	23,017	-
91 - 120 days	5,613	-
121 - 365 days	144,194	-
> 365 days	6,609,456	6,804,322
	6,801,939	**6,804,322**

Impairment: Service Charges		
Current (0 - 1830+ days)	(863,856,261)	(341,464,519)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(341,464,519)	-
Contributions to allowance	(522,391,742)	(341,464,519)
	(863,856,261)	**(341,464,519)**

The comparative figure for Receivables from exchange transactions has been restated to take into account the correction of billing for the period 01 July 2014 to 30 June 2015. Refer to note 43

Notes to the Financial Statements

Figures in Rand	2016	2015

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4,200	2,200
Bank balances	17,363,030	-
Short-term deposits	340,803,333	394,052,114
Bank overdraft	-	(42,480,566)
	358,170,563	**351,573,748**
Current assets	358,170,563	394,054,314
Current liabilities	-	(42,480,566)
	358,170,563	**351,573,748**

Short-term deposits are investments with a maturity period of less than 3 months and earn interest rates varying from (2015 5,50% to 6,70%) per annum. Investments are made up of short term deposits held for unspent conditional grants that are ringfenced until the conditions are met and utilised. The bank overdraft was caused by systematic accruals that affected the cashbook after year end.

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

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

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
First National Bank - Current Account - 62002510693	132,326,812	31,460,989	7,155,264	16,627,715	(42,480,566)	(10,464,592)
First National Bank - Call Account - 62004499481	113,284,765	266,160,350	244,175,900	113,284,765	266,160,350	244,175,900
First National Bank - CALL 62190652521 (CRR)	110,951,667	78,161,586	53,599,339	110,951,667	78,161,586	53,599,339
First National Bank - CALL 62187939784 (INFRASTRUCTURE)	30,031,899	221,653	44,008,048	30,031,899	221,653	44,008,048
First National Bank - CALL 62187936532 (NATIONAL)	86,397,673	4,233,171	4,751,855	86,397,673	4,233,171	4,751,855
First National Bank - CALL 62187938538 (PROVINCIAL)	3,841	5,274,805	1,309,762	3,841	5,274,805	1,309,762
First National Bank - Public Sector Cheque Account 62610267602	835,822	-	-	735,315	-	-
Nedbank - 03 7881076712 - 030	-	40,365,129	-	133,488	40,000,559	-
Investec - 457476451	-	-	25,374,445	-	-	25,374,445
Total	**473,832,479**	**425,877,683**	**380,374,613**	**358,166,363**	**351,571,558**	**362,754,757**

Figures in Rand	2016	2015

14. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - June 2016

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	1,659,270,571	4,349,331,692
Surplus	-	-	-	232,854,814	232,854,814
Correction of errors	-	-	-	(431,088,959)	(431,088,959)
	50,896,894	**2,637,664,227**	**1,500,000**	**1,461,036,426**	**4,151,097,547**

Ring-fenced internal funds and reserves within accumulated surplus - June 2015

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	864,333,070	3,554,394,191
Surplus	-	-	-	769,491,359	769,491,359
Correction of errors	-	-	-	(405,642,820)	(405,642,820)
	50,896,894	**2,637,664,227**	**1,500,000**	**1,228,181,609**	**3,918,242,730**

Notes to the Financial Statements

Figures in Rand	2016	2015

15. Unspent conditional grants and receipts

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

See note 22 for reconciliation of grants from National/Provincial Government.

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

	2016	2015
Unspent conditional grants		
National: Finance Management Grant	1	1
National: Municipal Systems Improvement Grant	-	-
National: Municipal Infrastructure Grant	-	-
National: EPWP	747,817	-
National: Department of Water Affairs and Forestry - Water Services Operating Grant	65,445	65,372
National: Rural Household Infrastructure Grant	(1)	(1)
National: Department of Transport - Rural Road Asset Management Grant	2	-
National: Municipal Water Infrastructure Grant	35,382,884	-
	36,196,148	**65,372**
Unspent provincial and national funds		
National: Department of Rural Development and Land Reform (Land Affairs)	402,614	402,614
National: Sport and Development	16,140,327	16,140,327
Provincial: Office of the Premier	21,569	21,569
Provincial: Treasury	1,606,965	1,606,965
Provincial: DHS Unblocking	824,912	1,858,951
Provincial: Department of Housing, Local Government and Traditional Affairs	1,316,415	1,395,941
Provincial: Department of Economic Affairs	14,308,883	14,308,883
Provincial: Department of Transport	1,732,096	1,732,097
Other Spheres of Government	7,162,449	7,162,449
Lapesi Project	42,197	42,197
Provincial: Department of Economic Affairs and Trade	1,539,116	-
	45,097,543	**44,671,993**
Unspent grants	36,196,148	65,372
Unspent agency fees	45,097,543	44,671,993
	81,293,691	**44,737,365**

Notes to the Financial Statements

Figures in Rand	2016	2015

16. Long service awards

Reconciliation of long service awards - June 2016

	Opening Balance	Additions	Utilised during the year	Total
Long service awards	9,701,983	2,457,114	(1,196,769)	10,962,328

Reconciliation of long service awards - June 2015

	Opening Balance	Additions	Utilised during the year	Total
Long service awards	7,672,000	3,362,983	(1,333,000)	9,701,983

Long Service Awards

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after 5 years (2015: 5 years) of continuous service, and every 5 years thereafter, to 45 years of continuous service. The provision is an estimate of the long service based on historical staff turnover.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by One Pangaea Financial. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

At year end 625 (2015: 570) employees were eligible for Long- service awards.

The Current service cost for the year ending 30 June 2015 was estimated to be R 1,124,000, whereas the cost for the ensuing year is estimated to be R 1,380,328.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	2016	2015
Discount rate	8.68 %	7.94 %
Consumer price inflation	6.38 %	7.04 %
Normal salary increase rate	7.38 %	7.00 %
Net effective discount rate	1.21 %	0.84 %
	- %	**- %**

Changes in the present value of the long service awards are as follows:

Opening balance	9,701,983	7,672,000
Current service cost	1,380,328	1,124,000
Interest cost	723,831	640,000
Benefits paid	(1,196,769)	(1,333,000)
Actuarial (gains)/losses	352,955	1,598,983
	10,962,328	**9,701,983**

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

Present value of the long service awards wholly unfunded	10,962,328	9,701,983

Figures in Rand	2016	2015

16. Long service awards (continued)

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	1,380,328	1,124,000
Interest cost	723,831	640,000
Actuarial (gains) losses	352,955	1,598,983
	2,457,114	**3,362,983**

17. Current employee benefits

Current Employee Benefits

	2016	2015
Staff bonus accrual	4,989,860	4,287,478
Performance bonus provision	917,955	838,049
Current portion of Post-Retirement benefits	1,298,129	3,423,801
Current portion of Long Service Awards	1,480,450	1,196,769
	8,686,394	**9,746,097**

Other current employee benefits - June 2016	Opening balance	Additions	Reversed during the year	Total
Staff bonus accrual	4,287,478	702,382	-	4,989,860
Performance bonus accrual	838,049	79,906	-	917,955
	5,125,527	**782,288**	**-**	**5,907,815**

Other current employee benefits - June 2015	Opening balance	Additions	Reversed during the year	Total
Staff bonus accrual	3,078,512	1,208,966	-	4,287,478
Performance bonus accrual	929,558	-	(91,509)	838,049
	4,008,070	**1,208,966**	**(91,509)**	**5,125,527**

18. Payables from exchange transactions

	2016	2015
Trade payables	1,713,464	54,034,195
Payments received in advanced	13,390,150	8,844,696
Retentions	15,603,460	8,064,990
Accrued leave pay	11,272,069	9,443,306
Deposits received	8,335	8,335
Sundry creditors	90,857,461	43,634,115
Emalahleni Local Municipality - Water Services	2,735,781	3,326,738
Intsika Yethu Local Municipality - Water Services	1,611,005	1,611,005
Sakhisizwe Local Municipality - Water Services	951,902	951,902
Tsolwana Local Municipality - Water Services	220,447	220,447
Water consumer deposits	122,367	45,035
	138,486,441	**130,184,764**

The comparative figure for Trade and other payables has been restated to take into account the correction of an understatement in accruals and retentions in the prior year. Refer to note 43

Fair value of trade and other payables

	2016	2015
Trade payables	1,713,463	54,034,194

Figures in Rand	2016	2015

19. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Other receivables from non-exchange transactions	-	28,723,988	28,723,988
Prepayments	-	10,449,832	10,449,832
Receivables from exchange transactions	-	111,349,407	111,349,407
Cash and cash equivalents	358,170,563	-	358,170,563
	358,170,563	**150,523,227**	**508,693,790**

Financial liabilities

	At amortised cost	Total
Retirement benefit obligation	51,929,056	51,929,056
Trade and other payables from exchange transactions	138,486,440	138,486,440
	190,415,496	**190,415,496**

June 2015

Financial assets

	At fair value	At amortised cost	Total
Other receivables from non-exchange transactions	-	17,761,650	17,761,650
Prepayments	-	25,801,373	25,801,373
Receivables from exchange transactions	-	336,194,940	336,194,940
Cash and cash equivalents	394,054,314	-	394,054,314
	394,054,314	**379,757,963**	**773,812,277**

Financial liabilities

	At amortised cost	Total
Retirement benefit obligation	47,043,516	47,043,516
Trade and other payables from exchange transactions	130,184,763	130,184,763
Bank overdraft	42,480,556	42,480,556
	219,708,835	**219,708,835**

20. Revenue

	2016	2015
Service charges	335,759,616	185,225,386
Other income	76,287,909	70,044,345
Interest received - investment	37,939,612	26,116,489
Government grants & subsidies	1,204,426,120	1,104,305,428
Transfer of Water and Sanitation function	-	449,141,147
	1,654,413,257	**1,834,832,795**

Notes to the Financial Statements

Figures in Rand	2016	2015

20. Revenue (continued)

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

Service charges	335,759,616	185,225,386
Other income	76,287,909	70,044,345
Interest received - investment	37,939,612	26,116,489
	449,987,137	**281,386,220**

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

Government grants & subsidies	1,204,426,120	1,104,305,428
Transfer of Water and Sanitation function	-	449,141,147
	1,204,426,120	**1,553,446,575**

21. Service charges

Service charges	127,651	115,209
Sale of water	293,503,164	147,644,633
Sewerage and sanitation charges	42,128,801	37,465,544
	335,759,616	**185,225,386**

The comparative figure for Service charges has been restated to take into account the correction of billing errors in the prior year. Refer to note 43

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Government grants and subsidies

	2016	2015
Revenue from conditional grants		
National: Finance Management Grant	1,500,000	1,499,999
National: Municipal Infrastructure Grant	273,543,999	317,654,000
National: EPWP	5,213,183	9,124,000
National: Department of Transport - Rural Road Asset Management	3,015,998	2,979,000
National: Department of Water Affairs and Forestry - Water Services Operating Grant	4,999,927	11,934,628
National: Municipal Systems Improvement Grant	940,000	934,000
National: MWIG	85,225,116	48,528,000
National: RHIG	4,000,000	4,000,001
	378,438,223	**396,653,628**
Revenue from conditional agency fees		
Provincial: Department of Economic Affairs and Trade	1,992,885	1,429,803
Provincial: DHS Unblocking	20,422,157	9,347,328
Provincial: Department of Water Affairs and Forestry - RBIG	291,330,921	236,569,799
Provincial: Department of Water Affairs and Forestry - ACIP	-	6,703,993
Provincial: Road Subsidies	30,575,232	31,840,950
Provincial: DHLGTA	79,526	-
Provincial: Treasury	27,904,146	-
COGTA (Amalgamation)	500,000	-
	372,804,867	**285,891,873**
	751,243,090	**682,545,501**
Revenue from other Unconditional Grants and Subsidies		
Equitable Share	446,759,000	415,244,000
Subsidy: LG SETA	310,362	129,850
Provincial: Department of Health - EHP	6,113,668	6,386,077
	453,183,030	**421,759,927**

The comparative figure for Revenue from Government Grants and Subisdies has been restated to take into account the correction of errors in the prior year. Refer to note 43

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2016	2015
Conditional grants received	751,243,090	682,545,501
Unconditional grants and subsidies received	453,183,030	421,759,927
	1,204,426,120	**1,104,305,428**

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Government grants and subsidies (continued)

Equitable Share

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

National: Finance Management Grant

Balance unspent at beginning of year	1	-
Current-year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,500,000)	(1,499,999)
	1	**1**

Conditions still to be met - remain liabilities (see note 15).

The grant is provided by National Treasury to help implement the financial management reforms required by the Municipal Finance Management Act.

National: Municipal Systems Improvement Grant

Current-year receipts	940,000	934,000
Conditions met - transferred to revenue	(940,000)	(934,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

The grant is allocated to municipalities to assist in building in house capacity to perform their functions and to improve and stabilise municipal systems.

National: Municipal Infrastructure Grant

Balance unspent at beginning of year	-	317,654,000
Current-year receipts	273,544,000	(13,898,850)
Conditions met - transferred to revenue	(273,544,000)	(303,755,150)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

The grant is allocated for the construction of basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institution; to provide for new, rehabilitation and upgrading of municipal infrastructure and eradicate bucket sanitation systems.

National: Department of Rural Development and Land Reform

Balance unspent at beginning of year	402,614	402,614

Conditions still to be met - remain liabilities (see note 15).

The grant is used to promote rural development and land reform.

National: Sport and Development

Balance unspent at beginning of year	16,140,327	16,140,327

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised for the building and maintenance of libraries in the district.

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Government grants and subsidies (continued)

Provincial: Office of the Premier

Balance unspent at beginning of year	21,569	21,569

Conditions still to be met - remain liabilities (see note 15).

The grant is allocated to assist the municipality on staging national events for e.g Women's day, Heritage day, etc.

Provincial: Treasury

Balance unspent at beginning of year	1,606,965	1,606,965

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised to support the municipality in the improvement of its financial administration.

Provincial: Department of Housing, Local Goverment and Traditional Affairs

Balance unspent at beginning of year	1,395,941	1,395,941
Current-year receipts	500,000	-
Conditions met - transferred to revenue	(579,526)	-
	1,316,415	**1,395,941**

Conditions still to be met - remain liabilities (see note 15).

The grant is used to assist in providing local housing.

Provincial: Department of Economic Affairs

Balance unspent at beginning of year	14,308,884	14,308,884

Conditions still to be met - remain liabilities (see note 15).

The grant is used to assist in local economic development.

Department of Transport

Balance unspent at beginning of year	1,732,096	1,732,096

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised for the maintenance of proclaimed roads in the jurisdiction areas of the municipality.

National: Other Spheres of Government

Balance unspent at beginning of year	7,162,449	7,162,449

Conditions still to be met - remain liabilities (see note 15).

The municipality receives grants from other spheres of government for various projects for social upliftment of the communities in the district.

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Government grants and subsidies (continued)

National: Department of Water Affairs and Forestry - Water Services Operating grant

Balance unspent at beginning of year	65,372	-
Current-year receipts	5,000,000	12,000,000
Conditions met - transferred to revenue	(4,999,927)	(11,934,628)
	65,445	**65,372**

Conditions still to be met - remain liabilities (see note 15).

This is a schedule 7 grant utilised to address the backlog on Bulk Water Supply.

National: Department of Transport - Rural Road Asset Management

Current-year receipts	3,016,000	2,979,000
Conditions met - transferred to revenue	(3,015,998)	(2,979,000)
	2	**-**

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised for the maintenance of roads in the jurisdiction areas of the municipality.\

National: EPWP

Current-year receipts	5,961,000	9,124,000
Conditions met - transferred to revenue	(5,213,183)	(9,124,000)
	747,817	**-**

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised for the maintenance of roads in the jurisdiction areas of the municipality.

National: Municipal Water Infrastructure Grant

Current-year receipts	120,608,000	48,528,000
Conditions met - transferred to revenue	(85,225,116)	(48,528,000)
	35,382,884	**-**

Conditions still to be met - remain liabilities (see note 15).

National: Rural Household Infrastructure Grant

Balance unspent at beginning of year	(1)	-
Current-year receipts	4,000,000	4,000,000
Conditions met - transferred to revenue	(4,000,000)	(4,000,001)
	(1)	**(1)**

Conditions still to be met - remain liabilities (see note 15).

Provincial: Lapesi project

Balance unspent at beginning of year	42,197	-
Current-year receipts	-	1,472,000
Conditions met - transferred to revenue	-	(1,429,803)
	42,197	**42,197**

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15).

DHS Unblocking

Balance unspent at beginning of year	1,858,951	-
Current-year receipts	19,388,118	11,206,279
Conditions met - transferred to revenue	(20,422,157)	(9,347,328)
	824,912	**1,858,951**

Conditions still to be met - remain liabilities (see note 15).

Provincial: D E A T

Current-year receipts	3,532,000	-
Conditions met - transferred to revenue	(1,992,885)	-
	1,539,115	**-**

Conditions still to be met - remain liabilities (see note 15).

Regional Bulk Infrastructure Grant

Current-year receipts	291,330,921	-
Conditions met - transferred to revenue	(291,330,921)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provincial - Treasury (COGTA)

Current-year receipts	19,843,685	-
Conditions met - transferred to revenue	(27,904,146)	-
Portion of grant recognised as debtor per note 10	8,060,461	-
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provincial: Road Subsidies

Current-year receipts	30,575,232	-
Conditions met - transferred to revenue	(30,575,232)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Financial Statements

Figures in Rand	2016	2015

23. Other income

Private telephone calls	35,265	-
Tender documents	453,624	355,050
Commission on collections	194,417	543,114
Insurance claims	-	44,934
VAT on conditional grants	75,427,800	68,610,425
Skills development fund	12,000	12,000
Other revenue	164,803	478,822
	76,287,909	**70,044,345**

Notes to the Financial Statements

Figures in Rand	2016	2015

24. General expenses

Advertising	1,515,136	1,426,064
Auditors remuneration	5,198,179	5,214,677
Bank charges	266,488	481,871
Computer expenses	2,374,897	1,307,011
Consulting and professional fees	401,931	128,356
Consumables	424,130	365,907
Study assistance reimbursements	179,611	-
Entertainment	1,437,683	1,478,958
Insurance	1,060,882	1,138,742
Education and marketing	894,725	655,122
Conferences and seminars	492,455	356,983
Lease rentals on operating lease	5,777,218	4,923,054
Motor vehicle expenses (licences and trackers)	881,214	853,316
Fuel and oil	8,971,368	6,293,982
Postage and courier	42,240	186,624
Printing and stationery	2,873,268	1,828,631
Promotional activities and presentations	10,410	9,110
Protective clothing and uniforms	1,847,826	772,959
VIP expenditure	54,000	69,340
Software expenses	1,547,811	1,652,067
Staff welfare	208,706	341,393
Subscriptions and membership fees	5,134,319	2,534,858
Telephone and fax	4,286,046	4,199,520
Training	1,561,249	877,391
Travel - local	12,565,119	10,522,858
Tools and equipment	515,858	337,187
Electricity	21,919,949	11,742,655
Rates	371,476	281,694
Water sampling	881,259	3,983
Refuse	64,996	21,043
Sewerage	-	265,832
Water inventory adjustment	102,048	-
Strategic sessions	1,352,462	662,537
Public events / Imbizo	5,256,443	1,704,290
Purchase of samples	205,695	17,310
Job evaluation	-	6,220
Communication	1,947,569	1,459,353
Approved courses	66,824	519,572
Circumcision programme	54,787	147,034
Council reporting documents	-	40,183
Delegated Management - Water Services Authority	48,307,825	50,223,359
ISDR	1,801,206	1,690,341
Sports and recreation	107,817	107,145
Sundries	75,806	140,397
Chemicals	6,931,667	4,699,853
Twining agreements	-	45,769
Meeting fees - audit committee	217,707	190,905
CSPS	7,462,752	3,868,189
	157,651,057	**125,793,645**

The comparative figure for General expenses has been restated to take into account the correction of errors in the prior year. Refer to note 43

Notes to the Financial Statements

Figures in Rand	2016	2015

25. Operating surplus

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

Operating lease charges		
Equipment		
• Contractual amounts	5,569,832	4,923,054
Loss on sale of property, plant and equipment	(1,560,555)	-
Amortisation on intangible assets	156,088	368,816
Depreciation on property, plant and equipment	157,920,909	121,838,248
Employee costs	247,091,752	217,765,245

Figures in Rand	2016	2015

26. Employee related costs

Basic	153,870,601	132,777,501
Bonus	10,263,361	10,744,544
Medical aid - company contributions	10,155,188	9,023,153
UIF	1,023,361	878,057
SDL	1,776,916	1,510,762
Leave pay provision charge	4,722,738	5,252,714
Industrial Council Levies	48,996	39,407
Post-employment benefits - Defined Contribution Plans	6,413,538	6,288,989
Travel, motor car, accommodation, subsistence and other allowances	21,143,981	18,198,840
Overtime payments	6,506,015	4,637,090
Long-service awards	21,430	1,324,750
Housing benefits and allowances	1,852,143	1,131,960
Termination benefits	19,662,605	18,239,158
	237,460,873	**210,046,925**

Remuneration of municipal manager - M.A. Mene

Annual Remuneration	1,025,809	993,987
Car and other allowances	485,994	321,194
Contributions to UIF, Medical and Pension Funds	192,805	220,520
Service bonus	82,793	77,886
Other	63,929	80,240
	1,851,330	**1,693,827**

Remuneration of Chief Financial Officer - N. Fetsha

Annual Remuneration	869,707	553,234
Car and other allowances	384,085	232,405
Contributions to UIF, Medical and Pension Funds	158,332	100,772
Service bonus	70,194	11,006
Other	51,507	27,959
	1,533,825	**925,376**

Remuneration of Director: Corporate Services - Y. Matakane-Dakuse

Annual Remuneration	869,707	817,371
Car and other allowances	356,550	297,441
Contributions to UIF, Medical and Pension Funds	194,183	196,248
Service bonus	70,194	66,034
Other	55,859	55,762
	1,546,493	**1,432,856**

Remuneration of Director: Health Services - Y. Sinyanya

Annual Remuneration	869,707	817,371
Car and other allowances	367,166	315,220
Contributions to UIF, Medical and Pension Funds	178,275	170,274
Service bonus	70,194	66,034
Other	54,107	63,957
	1,539,449	**1,432,856**

Notes to the Financial Statements

Figures in Rand	2016	2015

26. Employee related costs (continued)

Remuneration of Director: Integrated Planning and Development

Leave pay	-	34,866

Remuneration of Director: Strategic Services - B. Mthembu

Annual Remuneration	869,707	817,371
Car and other allowances	361,896	305,757
Contributions to UIF, Medical and Pension Funds	189,328	178,665
Service bonus	70,194	66,034
Other	48,922	65,029
	1,540,047	**1,432,856**

Remuneration of Director: Technical Services - M. Dungu

Annual Remuneration	869,708	817,371
Car and other allowances	488,832	289,159
Contributions to UIF, Medical and Pension Funds	37,965	191,445
Service bonus	70,194	66,034
Other	55,856	68,847
	1,522,555	**1,432,856**

27. Remuneration of councillors

Executive Major	942,780	766,897
Chief Whip	712,300	580,390
Mayoral Committee Members	4,939,768	4,030,002
Speaker	762,620	617,691
Councillors	2,273,411	1,723,340
	9,630,879	**7,718,320**

28. Debt impairment

Debt impairment	522,558,497	341,464,519

29. Investment revenue

Interest revenue		
Bank	1,871,163	1,606,252
Interest: other	163,601	192,907
Unlisted financial assets	35,862,404	24,317,330
Interest received - SARS	42,444	-
	37,939,612	**26,116,489**

30. Depreciation and amortisation

Property, plant and equipment	157,920,909	121,838,248
Intangible assets	156,088	368,816
	158,076,997	**122,207,064**

31. Finance costs

Trade and other payables	734,792	381,440

Notes to the Financial Statements

Figures in Rand	2016	2015

32. Auditors' remuneration

Fees	5,198,179	5,214,677

33. Contracted services

Other Contractors	11,382,977	13,064,696

34. Repairs and Maintenance

Buildings and grounds	3,307,036	931,938
Furniture	(1,049)	1,170
Plant Machinery and Office Equipment	45,817	179,927
Vehicles	5,227,515	3,556,101
Mains: Water	5,462,736	(2,206,277)
Water Furrow	-	1,425
Windmills	-	374,439
Boreholes	1,048,232	1,278,832
Equipment	559,595	355,346
Pumps and Engines	28,905,345	6,954,794
Networks	6,275,964	850,387
Tools	203,700	34,612
Meters	-	319,950
Combined: Sewers	-	2,144
Main: Sewers	41,890	492,573
	51,076,781	**13,127,361**

The comparative figure for Repairs and maintenance has been restated to take into account the correction of errors in the prior year. Refer to note 43

35. Grants and subsidies paid

Other subsidies		
Engcobo Local Municipality	-	129,518
Inkwanca Local Municipality	-	905,706
Emalahleni Local Municipality	-	26,157,033
Intsika Yethu Local Municipality	-	1,727,062
Sakhisizwe Local Municipality	-	1,490,226
Tsolwana Local Municipality	-	7,498,247
Community projects	230,992,940	157,292,255
Pauper burials	46,880	45,644
Chris Hani Development Agency	17,000,000	21,627,742
Adopted schools	800,000	320,000
	248,839,820	**217,193,433**

Grants and subsidies are allocated to local municipalities to assist them in the provision of services.

Community projects are in respect of conditional grants utilised for the upliftment of the housing and service needs of communities within the municipality's area of jurisdiction.

The comparative figure for Grants and subsidies has been restated to take into account the correction of errors in the prior year. Refer to note 43

36. Bulk purchases

Water	22,585,217	14,344,034

Notes to the Financial Statements

Figures in Rand	2016	2015

37. Cash generated from operations

Surplus	232,854,814	769,491,358
Adjustments for:		
Depreciation on Property, Plant and Equipment	158,076,997	122,207,064
Gain on sale of assets and liabilities	1,560,555	-
Debt impairment	522,558,497	341,464,519
Movements in retirement benefit assets and liabilities	4,885,541	7,406,446
Changes in working capital:		
Inventories	911,087	(6,354,405)
Receivables from exchange transactions	(297,712,964)	(676,028,801)
Other receivables from non-exchange transactions	(10,962,338)	31,089,716
Prepayments	15,351,541	(565,183)
Payables from exchange transactions	8,301,677	976,689
VAT	(44,941,650)	(4,445,911)
Unspent conditional grants and receipts	36,556,330	1,966,522
	627,440,087	**587,208,014**

Notes to the Financial Statements

Figures in Rand	2016	2015

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	808,541,876	419,756,831
• Community	247,882,185	28,491,878
	1,056,424,061	**448,248,709**
Not yet contracted for and authorised by accounting officer		
• Infrastructure	9,078,055	1,401,409
• Community	1,699,404	5,020,478
	10,777,459	**6,421,887**
Total capital commitments		
Already contracted for but not provided for	1,056,424,061	448,248,709
Not yet contracted for and authorised by accounting officer	10,777,459	6,421,887
	1,067,201,520	**454,670,596**

This committed expenditure relates to plant and equipment and will mainly be financed by Infrastructure Grants (Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant and Municipal Water Infrastructure Grant) as well as available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (Buildings)

Minimum lease payments due		
- within one year	2,798,662	2,261,650
- in second to fifth year inclusive	369,972	892,969
	3,168,634	**3,154,619**

Operating leases - as lessee (Other Equipment)

Minimum lease payments due		
- within one year	1,907,003	1,407,194
- in second to fifth year inclusive	299,161	1,202,408
	2,206,164	**2,609,602**

The total future minimum sublease payment expected to be received under non-cancellable sublease	5,374,798	5,764,221

Notes to the Financial Statements

Figures in Rand	2016	2015

39. Contingencies

Contingent liabilities

	2016	2015
CHDM requested the attorneys to draft a deed of sale for an interest they wanted to purchase agricultural equipment from Crop growers international	-	2,686,000
BEE online took CHDM to court contesting the appointment of a new service pointer when the Municipality still had an obligation to them (bidend by contract). The matter never materialised.	-	4,500,000
Contractual claim by Ziphi-niphi Enterprise against Eyethu Engineers and CHDM	96,660	96,660
Claim against CHDM in respect of a contract entered into with Inxuba Yethemba	180,052	180,052
Letter of Demand issued by Hlumisa to CHDM in respect of the amount due and payable and the interpretation of the terms of the General Conditions of Contract	3,800,000	-
Claim against CHDM regarding the supply and delivery of materials	28,885	-
Claim against CHDM in respect of services rendered (GK Water t/a GK Water Solutions)	1,391,027	-
Claim against CHDM and one other in respect of damages (Cradock Golf Club)	32,265	-
Claim against CHDM in respect of damages for personal injury (T O Madywabe)	300,000	-
Claim against CHDM in respect of damages as a result of a motor vehicle accident (Martiq 876 CC & one other)	1,163,314	-
Claim against CHDM in respect of services rendered (Norland Construction (Pty) Limited)	2,162,442	-
	9,154,645	**7,462,712**

Contingent assets

	2016	2015
CHDM opened a case against Mrs Tobias to SAPS for authorizing payment to a related party before services were rendered.	-	103,872

Notes to the Financial Statements

Figures in Rand	2016	2015

40. Transfer of Water and Sanitation Functions

The water and sanitation function was transferred on 1 July 2014 to Chris Hani District Municipality from 8 Local Municipalities: Lukhanji Local Municipality, Engcobo Local Municipality, Intsika Yethu Local Municipality, Inxuba Yethemba Local Municipality, Tsolwana Local Municipality, Sakhisizwe Local Municipality, Inkwanca Local Municipality and Emalahleni Local Municipality. The service level agreement for water and sanitation services between CHDM and local municipalities expired on 30 June 2014 and was not renewed. The assets and liabilities relating to the service were transferred to the Municipality at no consideration. Subsequent to 01 July 2014, the local municipalities continued to receive payments on debtors accounts in respect of water and sanitation services. The receipts were then transferred to Chris Hani District Municipality. The District Municipality is not responsible for any contingent liabilities incurred prior to and up to the date of transfer of Water and Sanitation services from the Local Municipalities. This transfer does not include Property, Plant and Equipment. Assets and liabilities were valued at fair value on recognition date. The transfer of water and sanitation services for Emalahleni, Inkwanca and Tsolwana was not completed in 2014/2015 financial year. These municipalities continued to pay expenditure on water and sanitation services on behalf of Chris Hani District Municipality.

Assets		
Receivables from Exchange Transactions: Water - gross amount	-	322,863,038
Provision for Impairment: Water	-	(75,706,438)
Receivables from Exchange Transactions: Sanitation - gross amount	-	247,977,661
Provision for Impairment: Sanitation	-	(65,738,620)
Accrued Income: Water (Subsequent receipts)	-	3,906,593
Accrued Income: Sanitation (Subsequent receipts)	-	1,179,781
Water inventory	-	1,173,990
Cash and Bank	-	6,924,415
	-	**442,580,420**
Liabilities		
Consumer Deposits	-	(1,368,003)
Payables from exchange transactions	-	(11,541,263)
Provision for service bonuses	-	(247,654)
Provision for long service awards	-	(11,629)
Leave accrual	-	(642,264)
	-	**(13,810,813)**
Total net effect		
Assets	-	442,580,420
Liabilities	-	(13,810,813)
	-	**428,769,607**

41. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Associates	Chris hani Development Agency Refer to note 5
MEMBERS OF KEY MANAGEMENT	KEY MANAGEMENT OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Mene Moppo	Member of Gibela Trade and Invest 1118
Mfecane Anita	Member of Anitaza Trading
Somkoko Mvuyeleni	Member of Jange and Mlungu Civils; Spouse is a member of Kuvala 205 Trading Enterprise;
Delubom Lindile	Member of Delubom Transport, L Delubom Trading and MTN Zakhane Shares; Spouse is a member of Lulwazi Trading Enterprise and MTN Zakhane Shares
Memani Thobela Headwell	Child is a Member of Vunoleo Building & Civil Youth Construction
Fumbeza Ntombifikile	33,33% Membership in Thembalobom Manufacturing & Enterprise CC
Jaxa-Dusubana Vuyokazi	33,33% Membership in Seven Mile Trading 132 CC, Member of AHLS Investments; Spouse has 33% membership in Galindo Trading 121 CC
Makonza Asanda	100% Membership in Seasons Find 1260 CC; Member of Funumbona Construction &Projects
Shasha Mzwamadoda Moses	100% Membership in Safika Rural Development Consultants
Mapatwana Ntombizanele	Member of Brainwave Project 205
Gqodo Zixolisile	Member of GZ Civil Engineering and Member of FC Builders &Construction
Katsere Tendai	35% Membership of Mazvita Trading; 100% Membership of Jekeso Communications; Member of Relilite Investments; Spouse is a member of Umzali Trading Enterprise
Gobeni Nonelela	Director of Hi-Lite Development Agency; Member of Ulutho Funerals
Makwabe Thandisizwe	50% Membership in Mokoti Construction
Tito Sibongile	Director of Smith Tabata
Lucando Bulelani	33% membership in El Shaddai Civil and Building Contractors
Mohale Reatile	Director of Reatile Transport and Projects
Manciya Aviwe	Director of M&M Makwande Trading
Petela Neziwe	Member of Kumbu &Lam Trading Enterprise; Member of Kei Recyclers; Spouse is a member of Cool Ideas 1413
Baatjies Eldridge Denzil	Director in BS Holdings
Dlova Zingisile Gidion	Director in Zinbar Enterprise
Madikane Thozama	50% Membership in Secreets Trading; 50% Membership in Koelro No 106; 100% Membership in Silkyline Hair Studio
Nqwemeshe Nomvuyo	Spouse is a member of Liso Security Services &Trading
COUNCILLORS	REFER TO LIST OF COUNCILLORS DISCLOSED UNDER GENERAL INFORMATION. COUNCILLORS OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Bula Mzwandile Nelson	20% Membership in Polonius Investments; 25% Membership in Bendis Investments; 100% Membership in Gobashe Trading Enterprise; 100% Membership in Zinkamba Trading 1002; Membership in Mthunziwethu Trading Co-operative Limited.

Figures in Rand	2016	2015

41. Related parties (continued)

Cengani Jongumzi	25% Membership in Four of us Construction & Development; 50% Membership in Manga Manga Trading Enterprise; 100% Membership in Ntandoyam Trading 44; 33% Membership in CMZ Tours
Deliwe Zanemvula	Director of Beyond 2030 Consulting Services; Member of Top-Town Farmers Agricultural Co-operation
Dyantyi Sinethemba Reginald	Director and Founding Member of Happy Valley Abattoir Co-operative Limited; Director of Sanelisa Services; Director of Tlholo Entrepreneur Support Centre
Gela Wongama	Director of Ithemba Liyaphilisa Financial Services; Director of Sesinethemba Construction; 10% Membership in Silver Solutions 2978; 20% Membership in Sikhuselu'Iuntu Protection and Training Services; 20% Membership in The Best Mining and Transportation Services; 20% Membership in Urafile Trading
Goniwe Nyameka	33,33% Membership in Karoo Furniture Manufacturers; 33,33% Membership in Umehluko Developments; 33,34% Membership in Imvelo Agencies; 50% Membership in Balisa Sivelise Productions
Koyo Mxolisi Clifford	Director of Tsomo Valley Farmers; 100% Membership in MBK Consulting Services; Spouse has membership in Buyie's Catering Service, Liwalama Trading Enterprise and Qamata Agric Service
Kulashe-Ndyumbu Thandeka	Director and Founding Member of DDX General Trading; Director and Founding Member of Mayidede General Trading
Mdwayingana William	Member of Mdwamtwa Construction &faciliation; Member of Mpoza-mpoza Business Solutions; Member of Masichume Fattening Agriculture; Director of Bring About
Magwashu Nongazi Gladys	50% Membership in Magwashu Development Projects
Mandile Prince Phillip	50% Membership in Mfe-Gebe Trading
Mbolo Skosana	25% Membership in Amabandla Construction; 50% Membership in Monde Skosana Building Construction
Mfundsi Nomalizo	33% Membership in Hewu Farming Project
Myataza Saziso	Member of Hluthamhlali Multi-purpose Trading
Nkwentsha-Gunuza Lindiwe	Director of Lembede Investment Holdings (Pty) Ltd; Director of Lembede Strategic Investments (Pty) Ltd
Nobongoza Humphrey	Director of Madcomsol Holdings (company has been deregistered); 25% Membership in Sangolekhaya Funeral Services; 100% Membership in Sunrise Coach Services; 100% Membership in Tando-Luzuko Trading & Projects
Nontsele Mncedisi	33,30% Membership in Izibele Management Services; 25& membership in Maq-no Security &Cleaning Services
Nquma Nombuyiselo Patricia	33,40% Membership in Fenas and Nquma Civils and Property Developers
Ntakana Siyavuma	100% Membership in Ntakana Brothers Transport and Construction; Member of Abahlobo Benene Trading and Projects
Plata Sithembele David	100% Membership in Daves Energy Distribution CC
Radzilani NR	Mmeber of Forecast Traders

Figures in Rand		2016	2015

41. Related parties (continued)

Roskruge N	30% Membership in Liqhakazi Construction and Projects; 100% Membership in Amilile Trading Enterprise
Shweni ZR	Spouse is a member of Shweni Trading, Ngxongounathi security, Bomi investment Holdings, Bomi investment Holdings, Eand So civil engineering and construction, Hlumisa Travelling Agency, Ezomso training and conference centre, Lilitha vehicle hire, Manzana Mancoba and Shweni Heavy Duty Transportation; Olona Trading and Project
Twani Sylvia	Director of Qamata Tembisile Hani Intergrated Energy Centre Co-operative limited
Vimbayo Kholisa	Member of Border Rural Committee; 50% membership in Sikho Social Development Facilitators
Xoseni Nkululeko George	100% Membership of Danscho Financial Services
MUNICIPAL EMPLOYEES	EMPLOYEES OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Hlahla Mtibe NNV	Spouse is a member of Yovo Trading Enterprise
Mankayi BJ	Spouse is a member of Mandush General Trading (Pty) Ltd
Pukwana PC	Spouse is a director of Chris Hani District Co-operative Development Centre
BUYILE MKHONTWANA	Has interest in Mvulane Catering & Construction
Mrs T SIQWAYI- ENVIR HEALTH PRACT GR 2	SPOUSE SAKIWO SIQWAYI- has an interest in JOLKS TRADING
MRS NNV HLAHLA MTIBE- ADMINISTRATOR	SPOUSE SINDEZAMA MTIBhas an interest in YOVO TRADING ENTERPRISE
MR MM SHASHA- SENIOR MANAGER WSA	Spouse/Partner/Associate NOMALIZO MONICA DAMOYI has an interest in BITLINE SA 1060CC
Mrs. SL PETER- ENVIR HEALTH ASSIST GR 2	Spouse/Partner/Associate NOMBULELO CYNTHIA KHANZI has an interest in BUYILE NO88 CONSTRUCTION AND CATERING
MR M KAMTENI- WATER PROCESS CONTROLLER	Spouse/Partner/Associate MPUTHUMI NELSON DYANTYI has an intereset in GOLDEN REWARDS 954 CC
MR MT MAVUNDHLA- WSP: O & M TECHN (INKWANCA)	Spouse/Partner/Associate AGNES MAKAZI MATROSS has an interest in MAMA TROSKIE TRADING ENTERPRISE
MR PCK PUKWANA- LED OFFICER (SMME)	Spouse/Partner/Associate SIPHENDULWE MATANZIMA has an interest in UBUSO BETHU QAMATA GENERAL TRADING
TURWANA MKUMBUZI	Spouse has an interest in Blooming Africa Trading (Pty) Ltd
MASHEBA LINDA	Spouse has an interest in Bayolo Business Enterprise (Pty) Ltd.
LWANA KOLEKA	Interest in Zano-Buntu Trading Enterprise (Pty) Ltd.

Related party transactions

Purchases from (sales to) related parties	2016	2015
RURAL SUPPORT SERVICES	148,109	243,779
Classy Trade Investments 1094 CC	6,092,491	633,007
SMITH TABATA INC	2,376	2,171
Yovo Trading Enterprise	26,650	38,700
Chris Hani District Co-operative Development Centre	17,603,950	26,044,113
Seasons Find 1260c	-	12,675
Mvulane Catering & Construction	-	10,000
SIZOZAMA TRAINING & DEVELOPMENT	-	21,785
TAKE NOTE TRADING 443 CC	-	5,400

Notes to the Financial Statements

Figures in Rand	2016	2015
41. Related parties (continued)		
NDOYIYA'S TRADING SERVICES CC	-	66,000
LIFESTONE CONSTRUCTION AND CIVILS	-	7,680
PASIN PETROLEUM ENERGY	59,900	4,500
NDUMIE AND THOZIE TRADING ENTERPRISE	19,810	2,000
UBUSO BETHU QAMATA GENERAL TRADING	-	158,431
THETHANATHI SERVICES CO-OPERATIVE LIMITED	-	2,800
GEGESI TRADING CC	-	2,880
THIVOVO GENERAL TRADING(PTY)LTD	13,410	9,100
ESOMILA GENERAL TRADING	-	409,340
IKWEZI TRADING AND PROJECTS (PTY) LTD	-	4,940
ROYAL HASKONING DHV	12,977,162	260,784
BETRAM (PTY)LTD	-	141,870
DIMENSION DATA (PTY)LTD	39,505	141,114
BIGEN AFRICA GROUP HOLDINGS (PTY) LTD	2,164,334	2,381,383
MILAGROS SOCIAL DEVELOPMENT(PTY)LTD	-	10,000
CQS TECHNOLOGY HOLDINGS (PTY) LTD	149,983	180,964
JOLKS TRADING	-	18,000
BITLINE SA 1060CC	485,427	10,551
BUYILE NO88 CONSTRUCTION AND CATERING	24,065	7,500
GOLDEN REWARDS 954 CC	7,300	8,000
MAMA TROSKIE TRADING ENTERPRISE	17,600	16,000
UBUSO BETHU QAMATA GENERAL TRADING	-	158,431
	39,832,072	**31,013,898**

42. Change in estimate

Property, plant and equipment

During the period under review the useful lives certain items of property , plant and equipment from which the entity continues to enjoy economic benefits and service potential for the forseeable future were re-assessed.

As a result of this adjustment, depreciation for the current year was reduced by R 16,734,533 to R 8,554,508

The balance of this depreciation will be realised over the remaining useful life of these assets over an average of 2-4 years depending on the nature and condition of the asset.

43. Prior period errors

Receivables from exchange transactions was corrected to reflect billing errors for the period 01 July 2014 to December 2015.

Trade and other payables was corrected to take into account invoices not raised in the prior year and corrections to Retentions.

Property, plant and equipment was corrected to take into account the corrections to depreciation for completed projects and movable assets, as well as the re-allocation of VIP operating expenditure to Grants and Subsidies Paid. The correction of Retentions also affected the corrections for PPE.

VAT receivable was adjusted to correct a journal incorrectly processed to account for the water services takeover.

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

Notes to the Financial Statements

Figures in Rand

43. Prior period errors (continued)

Accumulated surplus		
As previously reported	-	(4,349,331,692)
Correction of billing for period 01 July 2014 to June 2015	-	(441,109)
Recognition of assets not previously capitalised	-	(4,581,668)
Correction of classification of DHS unblocking funds from operating to capital expenditure	-	(9,347,325)
Corrections of invoices not raised in the prior year	-	4,683,622
Correction of invoices for Roads Subs 2001/2002	-	(788,279)
Correction of RBIG funds received in advance	-	5,690,986
Recognition of refund of grant funds	-	(1,500,000)
Correction of depreciation on completed projects	-	15,535,646
Correction of depreciation on movable assets	-	606,624
Correction of expenditure relating to VIP sanitation	-	428,623,785
Reversal of Retentions	-	(1,404,756)
Correction of depreciation on infrastructure (transferred to WIP)	-	(1,161,318)
Correction of sundry creditors	-	(7,785,013)
Correction of depreciation on land and buildings	-	185,940
Correction of depreciation on Infrastructure	-	4,827,573
Correction of Inkwanca Creditor	-	(1,453,160)
Correction of Emalahleni Creditor	-	(590,957)
Correction of long service awards	-	(11,629)
	-	**(3,918,242,730)**

Statement of financial performance		
Service Charges		
As previously reported	-	(184,784,278)
Correction of billing for period 01 July 2014 to June 2015	-	(441,109)
	-	**(185,225,387)**

Statement of financial performance		
Grant expenditure		
As previously reported	-	207,799,444
Correction of classification of DHS unblocking funds from operating to capital expenditure	-	(9,347,325)
Reclassification of ISDR from grant expenditure to general expenses	-	(1,690,341)
Corrections of invoices not raised in the prior year (Equitable Share Programmes)	-	170,848
Corrections of invoices not raised in the prior year (Inkwanca LM)	-	747,780
Correction of expenditure relating to VIP sanitation	-	15,996,442
Corrections of payments allocated to the incorrect period	-	(239,245)
Correction of Emalahleni Creditor	-	(590,957)
Corrections of invoices not raised in the prior year (Emalahleni LM)	-	2,735,781
Corrections of invoices not raised in the prior year (Intsika Yethu LM)	-	1,611,006
	-	**217,193,433**

Statement of financial performance		
Repairs and Maintenance		
As previously reported	-	13,128,111
Corrections of invoices not raised in the prior year (Vehicles)	-	(750)
	-	**13,127,361**

Statement of financial performance		
Government grants and subsidies		
As previously reported	-	(1,107,708,136)
Correction of invoices for Roads Subs 2001/2002	-	(788,279)
Recognition of refund of grant funds	-	(1,500,000)

Notes to the Financial Statements

43. Prior period errors (continued)

Correction of RBIG funds received in advance	-	5,690,986
	-	**(1,104,305,429)**

Statement of financial performance
Contracted Services

As previously reported	-	13,160,725
Corrections of invoices not raised in the prior year (Consulting Fees)	-	(96,029)
	-	**13,064,696**

Statement of financial performance
General Expenses

As previously reported	-	124,558,629
Reclassification of ISDR from grant expenditure to general expenses	-	1,690,341
Corrections of invoices not raised in the prior year (Departmental Electricity)	-	(507,311)
Corrections of invoices not raised in the prior year	-	51,986
	-	**125,793,645**

Statement of financial performance
Depreciation and amortisation

As previously reported	-	110,254,747
Correction of depreciation on completed projects	-	6,813,525
Correction of depreciation on movable assets	-	606,624
Correction of depreciation on Infrastructure	-	4,827,574
Correction of depreciation on infrastructure (transferred to WIP)	-	(474,671)
Correction of depreciation on land and buildings	-	179,264
	-	**122,207,063**

Statement of financial position
Receivables from exchange transactions

As previously reported	-	335,753,830
Correction of billing for period 01 July 2014 to December 2015	-	441,110
	-	**336,194,940**

Statement of financial position
VAT Receivable

As previously reported	-	31,602,011
Corrections of invoices not raised in the prior year	-	(470,274)
	-	**31,131,737**

Statement of financial position
Receivables from non-exchange transactions

As previously reported	-	16,973,369
Correction of invoices for Roads Subs 2001/2002	-	788,279
	-	**17,761,648**

Notes to the Financial Statements

Figures in Rand

43. Prior period errors (continued)

Statement of financial position
Prepayments

As previously reported	-	25,822,304
Correction of prepayments based on connected projects	-	(20,931)
	-	**25,801,373**

Statement of financial position
Property, plant and equipment

As previously reported	-	3,808,112,981
Correction of classification of DHS unblocking funds from operating to capital expenditure	-	9,347,325
Corrections of invoices not raised in the prior year (Asset Financing Reserve)	-	10,517
Correction of Retentions	-	(961,013)
Correction of prepayments based on connected projects	-	20,931
Correction of depreciation on completed projects (Accumulated Depreciation)	-	(15,535,646)
Recognition of assets not previously capitalised	-	4,581,668
Correction of depreciation on movable assets	-	(606,624)
Correction of expenditure relating to VIP sanitation	-	(428,623,785)
Adjustment for Retentions	-	(4,758,792)
Correction of depreciation on Infrastructure	-	(4,827,573)
Correction of depreciation on land and buildings	-	(185,940)
Correction of depreciation on infrastructure (transferred to WIP)	-	1,161,318
	-	**3,367,735,367**

Statement of financial position
Payables from exchange transactions

As previously reported	-	(138,723,599)
Corrections of invoices not raised in the prior year (Creditors' Previous Year Suspense)	-	(6,207,515)
Correction of Retentions	-	842,035
Recognition of refund of grant funds	-	1,500,000
Correction of sundry creditors	-	10,360,199
Correction of Inkwanca Creditor	-	1,453,160
Correction of Emalahleni Creditor	-	590,957
	-	**(130,184,763)**

44. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassification of DHS Unblocking Expenditure	After reclassification
Property, plant and equipment	3,808,112,981	9,347,325	3,817,460,306
General expenditure	124,558,629	(9,347,325)	115,211,304
Total	**3,932,671,610**	**-**	**3,932,671,610**

44. Comparative figures (continued)

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification of ISDR	After reclassification
Grants and subsidies paid	207,799,444	(1,690,341)	206,109,103
General expenses	124,558,629	1,690,341	126,248,970
Total	**332,358,073**	**-**	**332,358,073**

General expenses reclassification	Comparative figures previously reported	Reclassification	After reclassification
Other expenses line item as previously reported	15,100,643	(15,100,643)	-
Bank charges	-	481,871	481,871
Consumables	-	15,682	15,682
Entertainment	-	497,837	497,837
Education and marketing	-	655,122	655,122
Motor vehicle expenses (licences and trackers)	-	853,316	853,316
Fuel and oil	-	42,297	42,297
Postage and courier	-	186,624	186,624
Promotional activities and presentations	-	9,110	9,110
Protective clothing and uniforms	-	743,262	743,262
VIP expenditure	-	69,340	69,340
Software expenses	-	1,652,067	1,652,067
Telephone and fax	-	217,795	217,795
Tools and equipment	-	337,187	337,187
Refuse	-	21,043	21,043
Sewerage	-	265,832	265,832
Sports and recreation	-	107,145	107,145
Sundries	-	140,397	140,397
Chemicals	-	4,699,853	4,699,853
Twining agreements	-	45,769	45,769
Meeting fees - audit committee	-	190,905	190,905
CSPS	-	3,868,189	3,868,189
	15,100,643	**-**	**15,100,643**

Certain items listed below are subject to correction of prior period errors. Please refer to note 43 for the details of the corrections.

45. Risk management

Financial risk management

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

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality’s reputation.

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

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

Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments 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. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Notes to the Financial Statements

45. Risk management (continued)

Market risk

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2016, the municipality's borrowings at variable rate were denominated in the Rand.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the investment committee.

Consumer Debtors comprise of a large number of consumers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

46. Events after the reporting date

There were no non-adjusting events after the reporting date.

47. Unauthorised expenditure

Opening balance	482,420,015	263,864,540
Unauthorised expenditure	183,440,702	218,555,475
	665,860,717	**482,420,015**

No investigations were held to follow up on Unauthorised expenditure identified.

48. Fruitless and wasteful expenditure

Opening balance	2,177,236	1,359,405
Fruitless and wasteful expenditure - current year: Finance Costs	734,792	381,440
Fruitless and wasteful expenditure - current year: Cancellation of tender adverts	150,682	436,391
	3,062,710	**2,177,236**

No investigations have been held to follow up on Fruitless and Wasteful expenditure identified.

49. Irregular expenditure

Opening balance	1,105,183,087	980,414,003
Add: Irregular Expenditure - current year	99,709,694	124,769,084
	1,204,892,781	**1,105,183,087**

Analysis of expenditure awaiting condonation per age classification

Current year	99,709,694	124,769,084
Prior years	1,105,183,087	980,414,003
	1,204,892,781	**1,105,183,087**

No investigations were held to follow up on Irregular expenditure identified.

Notes to the Financial Statements

Figures in Rand

49. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Less than 3 quotes without a deviation	None	486,567
Tender Documentation not obtained		83,068,174
Non submission of Declarations, Tax clearance		14,142,686
Other		2,012,267
		99,709,694

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Current year subscription / fee	5,224,218	2,423,888
Amount paid - current year	(5,224,218)	(2,423,888)
	-	-

Audit fees

Current year subscription / fee	5,198,179	5,214,677
Amount paid - current year	(5,198,179)	(5,214,677)
	-	-

PAYE and UIF

Current year subscription / fee	33,271,170	24,984,494
Amount paid - current year	(33,271,170)	(24,984,494)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	29,291,230	15,312,142
Amount paid - current year	(29,291,230)	(15,312,142)
	-	-

VAT

VAT receivable	76,073,387	31,131,737

VAT output payables and VAT input receivables are shown in note 11.

All VAT returns have been submitted by the due date throughout the 12 months based on a 1 month, category C tax period, i.e. submission is due on the last day of each of the twelve months of the calendar year.

The Municipality uses the Payments Basis to account for the tax payable.

Notes to the Financial Statements

Figures in Rand

51. 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 financial statements.

Deviations - 30 June 2016	**Mayor's office and Municipal Manager's office**	**Budget and Treasury office**	**Technical Services**	**IPED**	**Corporate Services and Health Services**	**Total**
Clause 36(1)(a)(i) Emergency	387,082	150,716	415,401	38,800	95,763	1,087,762
Clause 36(1)(a)(ii) Single provider	187,050	-	104,348	-	-	291,398
Clause 36(1)(a)(v) Impractical or impossible application	-	114,850	-	221,700	614,822	951,372
	574,132	**265,566**	**519,749**	**260,500**	**710,585**	**2,330,532**

52. Non-compliance with the Municipal Finance Management Act

A summary of the Municipality's pertinent non-compliance with the MFMA are as follows:

- Section 15 of MFMA - Appropriation of funds for expenditure: Expenditure was incurred in excess within the limits of the amounts appropriated for the different votes in an approved budget.
- Section 62 of MFMA - General financial management functions: The accounting officer did not take all reasonable steps to ensure the appropriate management of expenditure of the Municipality.
- Section 32(4) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not promptly inform the mayor, the MEC for local government in the province and the Auditor-General of any unauthorised, irregular or fruitless and wasteful expenditure incurred.
- Section 32(2) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not take the necessary steps to recover Unauthorised, irregular or fruitless and wasteful expenditure.
- Section 65 of MFMA - Expenditure management: The accounting officer did not take all reasonable steps to ensure that the financial administration of the Municipality is appropriately managed.
- Section 122 of MFMA - Preparation of financial statements: The Municipality did not prepare Annual Financial Statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.
- Section 63 of MFMA - Asset and liability management: The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register.
- Section 115 of MFMA - Supply Chain Management - Implementation of the system: The accounting officer did not take all reasonable steps to implement the supply chain management policy of the municipality and to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of irregular practices.

53. Water distribution losses

Water losses	40,913,332	17,016,436

The municipality incurred water distribution losses in the current year estimated at an average of 49%. This amounts to a loss of 17 027 576.62 kilolitres, resulting in a total loss based on full operations cost for the current year of R 40,913,331.85.

The municipality incurred water distribution losses in the prior year estimated at an average of 41%. This amounts to a loss of 14 373 402.84 kilolitres, resulting in a total loss based on full operations cost for the current year of R 36,716,009.53.

54. Budget differences

Material differences between budget and actual amounts

Revenue:

1. Service charges: The improvement on the billing since the take over from LM's has made increased on billing and the areas that were not billed in prior years had since been billed.

2. Other income: Over collected because of spending on conditional grants as the material amount of other revenue relates to VAT from conditional.

3. Interest received - investment: The municipality has invested more during the financial year

4. Government Grants and subsidies: This amount includes capital grants. The budget include full budget allocation for Department of human settlement and Provincial Treasury though those departments transfer funds in line with expenditure incurred. During the year there was under expenditure on DHS and COGTA grants

Expenditure:

5. Personnel: Under - expenditure arose due to certain vacant positions that were budgeted for were not filled earlier in the financial year or not filled at all.

6. Remuneration of Councillors: Variance is not significant.

7. Depreciation and amortisation: CHDM did not anticipate the increase in depreciation and amortisation during the budget process as this was as a result of assets that were completed in prior years, but were sitting in WIP and never recognised as assets in prior years.

8. Debt impairment: CHDM did not anticipate the increase in debt impairment during the budget process and the municipality thought that credit control processes would be improved.

9. Finance cost:There was an improvement in the payment of service providers hence the reduction in interest

10. Repairs and maintenance: Under - expenditure is arose due to mains water and building and grounds has been improved from 14/15 financial year.

11. Bulk purchases: CHDM did not anticipate the increase in bulk purchases during the budget process and the late submission of invoices by the department of water and sanitation has led this scenario.

12. Contracted services: The municipality has reduced the appointment of consultants hence there is a difference.

13. Government grants and subsidies: Under- expenditure was as a result of projects under equitable share that could not been completed and the rollover was requested to 2016/17.

14. General expenses: Under - expenditure was due to the budget that was allocated for MSCOA implementation , however the municipality paid less than the budgeted amount as the project moved over to 2016/17.

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements differ from the budget, which is approved on the cash basis.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to the annual report