



IKWEZI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

GENERAL INFORMATION

Legal form of entity	The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa, 1996, as amended.
Nature of business and principal activities	Ikwezi Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)The municipality's operations are governed by:- Municipal Finance Management act 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	SA Mngwevu
Councillors	K Hendricks M Bonaparte L Ntame A Mboneni J Lewis BW Seekoei
Grading of local authority	Grade 2
Business address	34 Main Street Jansenville 6265
Postal address	P O Box 12 Jansenville 6265
Bankers	ABSA Bank Jansenville
Auditors	Auditor General South Africa
Principal Activities	The principal activities of the municipality are: <ul style="list-style-type: none">- Provide democratic and accountable government- Ensure sustainable service delivery to the communities- Promote social and economic development- Provide basic services to the community

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Ikwezi Local Municipality

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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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GRAP) And the Municipal Finance Management Act (MFMA) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence until the merger on the 7 August 2016.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented.

The annual financial statements set out on pages 4 to 48, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed by him:



MN Pieterse
Municipal Manager - Dr Beyers Naude Local
Municipality

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

Figures in Rand	Notes	2016	Restated 2015
Assets			
Current Assets			
Inventories	2	11 847	11 847
Receivables from non-exchange transactions	3	477 825	511 867
Trade receivables	4	1 239 536	2 711 702
VAT receivable	5	1 523 215	-
Cash and cash equivalents	6	1 350 328	21 520
		4 602 751	3 256 936
Non-Current Assets			
Investment property	7	37 495 550	37 495 550
Property, plant and equipment	8	240 039 856	244 825 957
Intangible assets	9	123 020	190 686
Heritage assets	10	1 221 983	1 221 983
		278 880 409	283 734 176
Total Assets		283 483 160	286 991 112
Liabilities			
Current Liabilities			
Other financial liabilities	11	-	4 100 000
Finance lease obligation	12	-	118 869
Payables from exchange transactions	13	37 365 652	34 421 281
VAT payable	14	-	619 311
Unspent conditional grants and receipts	15	8 149 160	5 321 131
Provisions	16	1 031 655	733 911
		46 546 467	45 314 503
Non-Current Liabilities			
Other financial liabilities	11	(2 370 000)	205 241
Retirement benefit obligation	44	3 996 172	3 996 172
Provisions	16	1 894 922	1 727 840
		3 521 094	5 929 253
Total Liabilities		50 067 561	51 243 756
Net Assets		233 415 599	235 747 356
Accumulated surplus		233 415 599	235 747 356

Ikwezi Local Municipality

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STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Notes	2016	Restated 2015
Revenue			
Property rates	17	1 789 423	1 722 591
Service charges	18	9 041 586	10 155 210
Government grants & subsidies	19	45 338 531	43 008 155
Interest received - internal	20	1 123 911	1 316 022
Interest received - external	20	92 790	43 767
Licences and permits	20	70 264	109 451
Rental of facilities and equipment	20	219 532	86 240
Other income	20	1 360 707	2 169 266
Gains on disposal of assets	20	350 877	-
Property rates - penalties imposed	20	279 307	327 859
Total revenue		59 666 928	58 938 561
Expenditure			
Personnel	21	(19 180 678)	(21 477 365)
Remuneration of councillors	22	(1 877 685)	(1 725 964)
Debt impairment	23	(4 238 835)	(6 152 625)
Depreciation and amortisation	24	(12 276 931)	(12 186 208)
Finance costs	25	(2 874 838)	(2 185 761)
Repairs and maintenance	26	(115 301)	(550 772)
Bulk purchases	27	(7 758 602)	(5 932 966)
General Expenses	28	(13 934 711)	(16 340 445)
Impairment loss	8	(19 751)	-
Total expenditure		(62 277 332)	(66 552 106)
Deficit for the year		(2 610 404)	(7 613 545)

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported at 01 July 2013		104 886 747	104 886 747
Adjustments			
Correction of errors	29	138 474 154	138 474 154
Balance at 01 July 2014 as restated		243 360 901	243 360 901
Changes in net assets			
Deficit for the year		(7 613 545)	(7 613 545)
Total changes		(7 613 545)	(7 613 545)
Balance at 01 July 2015		236 026 003	236 026 003
Changes in net assets			
Deficit for the year		(2 610 404)	(2 610 404)
Total changes		(2 610 404)	(2 610 404)
Balance at 30 June 2016		233 415 599	233 415 599

Ikwezi Local Municipality

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CASH FLOW STATEMENT

Figures in Rand	Notes	2016	Restated 2015
Cash flows from operating activities			
Receipts			
Rates and services		8 567 870	7 155 585
Government grants & subsidies		45 338 531	43 008 155
Interest income		1 216 701	1 359 789
Other receipts		1 580 237	2 364 957
		<u>56 703 339</u>	<u>53 888 486</u>
Payments			
Employee costs		(21 058 361)	(23 203 327)
Suppliers		(17 555 182)	(6 131 639)
Finance costs		(2 874 838)	(2 185 761)
		<u>(41 488 381)</u>	<u>(31 520 727)</u>
Net cash flows from operating activities	30	15 214 958	22 367 759
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(7 436 802)	(20 791 270)
Proceeds from sale of property, plant and equipment	8	350 877	-
Purchase of intangible assets	9	(6 115)	-
		<u>(7 092 040)</u>	<u>(20 791 270)</u>
Net cash flows from investing activities		(7 092 040)	(20 791 270)
Cash flows from financing activities			
Movement in Repayment - National Revenue fund		(6 675 241)	(1 000 000)
Finance lease payments		(118 869)	(245 804)
		<u>(6 794 110)</u>	<u>(1 245 804)</u>
Net cash flows from financing activities		(6 794 110)	(1 245 804)
Net increase/(decrease) in cash and cash equivalents		1 328 808	330 685
Cash and cash equivalents at the beginning of the year		21 520	(309 165)
Cash and cash equivalents at the end of the year	6	1 350 328	21 520

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Service charges	16 489 125	(2 249 169)	14 239 956	9 041 586	(5 198 370)
Rental of facilities and equipment	73 225	36 475	109 700	219 532	109 832
Interest received	726 707	176 443	903 150	1 216 701	313 551
Licences and permits	719 939	-	719 939	70 264	(649 675)
Other income	2 292 597	(318 057)	1 974 540	1 360 707	(613 833)
Profit on disposal of assets	-	400 000	400 000	350 877	(49 123)
Total revenue	20 301 593	(1 954 308)	18 347 285	12 259 667	(6 087 618)

Revenue from non-exchange transactions

Property rates	2 045 326	125 000	2 170 326	2 068 730	(101 596)
Government grants & subsidies	44 467 000	2 000 000	46 467 000	45 338 531	(1 128 469)
Transfer revenue					
Fines	1 012 000	-	1 012 000	-	(1 012 000)
Total revenue from non-exchange transactions	47 524 326	2 125 000	49 649 326	47 407 261	(2 242 065)
Total revenue	67 825 919	170 692	67 996 611	59 666 928	(8 329 683)

Expenditure

Personnel	(22 609 503)	2 918 348	(19 691 155)	(19 180 678)	510 477
Remuneration of councillors	(1 877 292)	-	(1 877 292)	(1 877 685)	(393)
Depreciation and amortisation	(4 203 279)	-	(4 203 279)	(12 276 931)	(8 073 652)
Impairment loss	-	-	-	(19 751)	(19 751)
Finance costs	(98 219)	-	(98 219)	(2 874 838)	(2 776 619)
Debt impairment	(668 458)	-	(668 458)	(4 238 835)	(3 570 377)
Repairs and maintenance	(7 586 278)	(50 000)	(7 636 278)	(115 301)	7 520 977
Bulk purchases	(6 320 048)	-	(6 320 048)	(7 758 602)	(1 438 554)
General Expenses	(17 278 512)	864 941	(16 413 571)	(13 934 711)	2 478 860
Total expenditure	(60 641 589)	3 733 289	(56 908 300)	(62 277 332)	(5 369 032)
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	7 184 330	3 903 981	11 088 311	(967 272)	12 055 583

Reconciliation

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Cash Flow Statement

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity, rounded to R1.

1.2 Going concern

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

1.3 Budget information

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30. The budget was prepared on the accrual basis.

Budget information in accordance with GRAP 1 and 24, has been provided in the Statement of comparison of budget and actual amounts.

1.4 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior years, except as otherwise indicated.

The nature and reasons for the reclassifications and restatements are disclosed in note 29 to the financial statements.

1.5 Offsetting

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

1.6 Significant judgements and sources of estimation uncertainty

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require material adjustment to the carrying amount of the relevant asset or liability in future periods.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates are processed in the period of the review and applied prospectively.

In the process of applying the entity's accounting policies, the following estimates were made:

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Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

Impairments of non-financial assets

In determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Pension and other post-employment 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, future salary increase, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Effective interest rate

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

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Provision for rehabilitation of refuse landfill sites

The entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value using an appropriate discounting rate, representing the time value of money.

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's current condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

1.7 Investment property

Initial recognition and measurement

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

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

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

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

The cost of self-constructed investment property is the cost at date of completion.

The cost of day to day servicing of investment property is recognised in the Statement of Financial Performance as incurred.

Subsequent measurement

Cost model

Subsequent to initial recognition investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation recognised on investment property is determined with reference to the useful lives and residual values of the underlying items. Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

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

Land is not depreciated as it is considered to have an indefinite useful life.

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance .

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.7 Investment property (continued)

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

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

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

1.8 Property, plant and equipment

Initial recognition

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 (other than investment property), 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. The cost also includes the cost of dismantling and removing the asset and restoring the site on which it is operated.

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

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.

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

Subsequent measurement

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, which is not depreciated as it is deemed to have an indefinite useful life.

The decommissioning costs associated with landfill sites are depreciated over its remaining useful life in accordance with estimate of useful lives as detailed below.

Subsequent expenditure

Where the entity replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

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ACCOUNTING POLICIES

1.8 Property, plant and equipment (continued)

Depreciation

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Components that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an asset's residual value.

The annual depreciation rates are based on the following estimated useful lives:

Item	Average useful life
Land and buildings	
• Land	Indefinite
• Buildings	30 years
Infrastructure	
• Roads and paving	10 - 50 years
• Water	20 - 50 years
• Electricity	5 - 30 years
• Sanitation	40 - 55 years
• Cemeteries	30 years
Other	
• Office equipment	7 - 10 years
• Furniture and fittings	5 - 15 years
• Computer equipment	5 - 10 years
• Infrastructure equipment	7 - 40 years
• Mototr vehicles	7 - 10 years
• Plant and equipment	7 - 15 years
• Other equipment	5 - 15 years
Landfill sites	16 - 22 years

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Ikwezi Local Municipality

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ACCOUNTING POLICIES

1.9 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position 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.

Intangible assets are initially recognised at cost.

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

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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.

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.

Amortisation and impairment

The depreciable amounts of intangible assets with a finite useful life are allocated over their useful lives using the straight line method.

The annual amortisation rates are based on the following estimated average asset lives:

Computer software, other

3 years

Impairments

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.10 Financial instruments

Policies relating to specific financial instruments

1.11 Leases

Finance leases - lessee

Initial recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

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

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

Subsequent measurement

Subsequent to initial recognition the finance lease liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

Finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

Operating leases - lessor

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease.

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

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

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

Operating leases - lessee

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position.

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.

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ACCOUNTING POLICIES

1.12 Inventories

Initial recognition and measurement

Inventories are initially measured at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their required location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured on the weighted average basis by multiplying the cost per kilo litre of purified water by the amount of water in storage.

Where inventory is acquired for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Inventories are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Water inventory is measured annually at the reporting date by way of dip readings and the calculated volume in the distribution network.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value.

Derecognition

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.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return.

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.

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.

Recognition and measurement

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.

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.

Ikwezi Local Municipality

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ACCOUNTING POLICIES

1.13 Impairment of cash-generating assets (continued)

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 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.

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.

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.

Ikwezi Local Municipality

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ACCOUNTING POLICIES

1.14 Impairment of non-cash-generating assets

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

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.

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.

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.

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.

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.

1.15 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Post-employment benefits

The entity provides post employment benefits for its officials. These benefits are provided as either defined contribution plans or defined benefit plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

Defined contribution plans

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Ikwezi Local Municipality

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ACCOUNTING POLICIES

1.15 Employee benefits (continued)

Post retirement medical obligations

The municipality provides post-retirement medical benefits by subsidising the medical contributions of certain retired staff members according to the rules of the medical aid funds. Council pays 70% of the contributions and the remaining 30% is paid by the members.

The entitlement to post-retirement medical 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, in accordance with GRAP 25 - "Employee Benefits". The plan is unfunded.

The contributions are recognised in the statement of financial performance when the employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value of the plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of minimum funding requirements. Payments made by the municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries, and are recognised in the Statement of Financial Performance upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.16 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 expenditure expected to be required to settle the obligation.

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 expenditure for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

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

1.17 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Ikwezi Local Municipality

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ACCOUNTING POLICIES

1.17 Revenue from exchange transactions (continued)

Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

Specific exchange revenue sources

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

Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. At reporting date, an estimate of the prepaid electricity consumed is made and revenue is adjusted accordingly. The estimate is based on trend analysis and historical data of electricity consumption.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

Rental income arising on facilities and equipment is accounted for on a straight-line basis over the lease terms on ongoing leases.

Measurement

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

1.18 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a 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.

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.18 Revenue from non-exchange transactions (continued)

Recognition

Revenue from non-exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The amount of revenue can be measured reliably; and
- b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

In accordance with IGRAP1 the full amount of the revenue is recognised at the initial transaction date.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information available from the courts, it is not possible to measure this revenue in the invoicing period.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Measurement

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

1.19 Borrowing costs

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

1.20 Unauthorised expenditure

Unauthorised expenditure means expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) of the MFMA, and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the MFMA.

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.20 Unauthorised expenditure (continued)

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

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) or 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 Related parties

In accordance with GRAP 20, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and other entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

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

1.24 Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives.

1.25 Taxes - 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 taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.26 Capital commitments

Capital commitments disclosed in the financial statements represents the contractual balance committed to the capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.27 New standards and interpretations

1.27.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard / Interpretation

None

Effective date:

Years beginning on or after

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.27 (continued)

1.27.2 Standards and Interpretations issued, but not yet effective

Standard / Interpretation	Effective date: Years beginning on or after	Expected impact:
GRAP 18: Segment Reporting	01 April 2017	No significant effect
GRAP 20: Related Parties	01 April 2017	No significant effect
GRAP 32: Service concession arrangements:	01 April 2016	No significant effect
GRAP 108: Statutory Receivables	01 April 2016	No significant effect
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
GRAP 16 (as amended 2015): Investment Property	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.
GRAP 21 (as amended 2015): Impairment of non-cash generating Assets	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements.
GRAP 26 (as amended 2015): Impairment of cash generating Assets	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements.
Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

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 April 2015 or later periods:

Possible impact of initial application of standards of GRAP approved but not yet effective

GRAP 18: Segment Reporting – It is expected that this will only result in additional disclosures without affecting the underlying accounting.

GRAP 20: Related Parties - No significant impact is expected as the information is to a large extent already included in the financial statements.

GRAP 32: Service concession arrangements: Grantor – No significant impact is expected as no such transaction or events are expected in the foreseeable future.

GRAP 108: Statutory Receivables – No significant impact is expected as the information is to a large extent already included in the financial statements.

IGRAP 17: Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

Ikwezi Local Municipality

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ACCOUNTING POLICIES

1.27 (continued)

GRAP 16 (as amended 2015): Investment Property – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 17 (as amended 2015): Property, Plant and Equipment – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 109: Accounting by Principals and Agents – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 21 (as amended 2015): Impairment of non-cash generating Assets – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 26 (as amended 2015): Impairment of cash generating Assets – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities – No significant impact is expected as no such transactions or events are expected in the foreseeable future.

1.28 Post-reporting date events

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

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

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

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

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
2. Inventories		
Water	11 847	11 847
No consumables were on hand at year end.		
3. Receivables from non-exchange transactions		
Sundry debtors	107 761	107 761
Other taxes	26 851	40 509
Sundry debtor	268 473	268 473
Receipting variances	74 740	74 740
Payments	-	20 384
	477 825	511 867
4. Trade receivables		
Gross balances		
Rates	3 351 298	2 559 455
Electricity	3 994 451	3 239 483
Water	5 138 538	4 083 895
Sewerage	5 832 153	4 317 214
Refuse	5 275 156	3 932 198
Payments received in advance	(439 760)	(675 958)
Other	334 699	300 883
VAT provision	-	2 726 498
	23 486 535	21 159 626
Less: Allowance for impairment		
Debtors with credit balances	439 760	675 958
Less: Provision for debt impairment	(22 686 759)	(18 447 924)
	(22 246 999)	(17 771 966)
Net balance		
Net balance	1 239 536	2 711 702
Included in above is receivables from exchange transactions		
Electricity	3 994 541	3 239 483
Water	5 138 538	4 083 895
Sewerage	5 832 143	4 317 214
Refuse	5 275 156	3 932 198
VAT Provision	759 269	2 726 498
Payments received in advance	(439 760)	(675 958)
	20 559 887	17 623 330
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	3 351 298	2 559 455
Other	332 185	300 883
	3 683 483	2 860 338
	-	-
Net balance	24 243 370	20 483 668

Ikwezi Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
4. Trade receivables (continued)		
Rates		
Current (0 -30 days)	(28 308)	2 502
31 - 60 days	2 024	2 266
61 - 90 days	2 024	1 277
91 - 120 days	2 043	-
121 - 365 days	5 785	-
> 365 days	3 367 730	2 553 410
	3 351 298	2 559 455
Electricity		
Current (0 -30 days)	28 040	2 095 742
31 - 60 days	92 874	94 045
61 - 90 days	59 601	96 424
91 - 120 days	50 503	121 549
121 - 365 days	61 270	-
> 365 days	3 702 163	831 723
	3 994 451	3 239 483
Water		
Current (0 -30 days)	17 009	155 956
31 - 60 days	28 153	227 239
61 - 90 days	58 948	2 158
91 - 120 days	27 299	1 567
121 - 365 days	69 557	-
> 365 days	4 937 572	3 696 975
	5 138 538	4 083 895
Sewerage		
Current (0 -30 days)	65 312	65 278
31 - 60 days	69 212	64 420
61 - 90 days	68 513	61 885
91 - 120 days	68 871	62 151
121 - 365 days	69 061	-
> 365 days	5 491 184	4 063 480
	5 832 153	4 317 214
Refuse		
Current (0 -30 days)	49 778	65 489
31 - 60 days	67 572	64 076
61 - 90 days	67 727	59 916
91 - 120 days	66 035	59 467
121 - 365 days	65 079	-
> 365 days	4 958 965	3 683 250
	5 275 156	3 932 198
Business service levies		
Current (0 -30 days)	-	2 726 498
Debtors with credit balance		
Current (0 -30 days)	(439 760)	(675 958)

Ikwezi Local Municipality

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4. Trade receivables (continued)		
Other (specify)		
Current (0 -30 days)	17 604	(3)
121 - 365 days	317 095	300 886
	334 699	300 883
Reconciliation of allowance for impairment		
Balance at beginning of the year	(18 447 924)	(22 983 426)
Contributions to allowance	(4 238 835)	(6 152 625)
Debt impairment written off against allowance	-	10 688 127
	(22 686 759)	(18 447 924)

5. VAT receivable

VAT	1 523 215	-
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The municipality is registered for VAT on the payments basis.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	72 868	10 760
Short-term deposits	1 277 460	10 760
	1 350 328	21 520

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA BANK - Cheque Account - 4053099797	(4 961)	14 760	1 101 008	8 982	10 760	(320 374)
ABSA BANK - Salary Cheque Account - 2520141122	127	-	118	127	-	-
Sarah Baartman District - MIG Account	1 190 995	-	-	1 190 995	-	-
ABSA BANK - Call Deposit Account - 9118667163	-	751	915	-	751	915
ABSA BANK - Call Deposit Account - 9101589574	-	1 007	1 002	-	1 007	1 002
STANDARD BANK - Trust Fund Account - 3/288885537/001	9 002	9 002	9 002	9 002	9 002	9 002
STANDARD BANK - Cheque Account - 28023893	63 759	-	-	63 759	-	-
STANDARD BANK - Money Market Account - 288865316-1	1 470	-	-	1 470	-	-
STANDARD BANK - Money Market Account - 288865316-2	4 727	-	-	4 727	-	-
STANDARD BANK - Money Market Account - 288865316-3	1 299	-	-	1 299	-	-
STANDARD BANK - Money Market Account - 288865316-4	23 646	-	-	23 646	-	-
STANDARD BANK - Money Market Account - 288865316-5	46 321	-	-	46 321	-	-
Total	1 336 385	25 520	1 112 045	1 350 328	21 520	(309 455)

Ikwezi Local Municipality

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7. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	37 002 709	-	37 002 709	37 002 709	-	37 002 709
Buildings	492 841	-	492 841	492 841	-	492 841
Total	37 495 550	-	37 495 550	37 495 550	-	37 495 550

Reconciliation of investment property - 2016

	Opening balance	Total
Land	37 002 709	37 002 709
Buildings	492 841	492 841
	37 495 550	37 495 550

Reconciliation of investment property - 2015

	Opening balance	Total
Land	37 002 709	37 002 709
Buildings	492 841	492 841
	37 495 550	37 495 550

Fair value of investment properties 37 495 550 37 495 550

No restrictions have been placed on the investment property and no investment property has been pledged as security.

The fair values for investment property were obtained from the latest available valuation rolls.

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	20 341 555	-	20 341 555	20 341 555	-	20 341 555
Infrastructure	287 184 791	(133 108 714)	154 076 077	287 184 791	(123 993 267)	163 191 524
Buildings	101 833 431	(58 449 187)	43 384 244	101 833 431	(55 928 380)	45 905 051
Motor vehicles	1 482 585	(337 876)	1 144 709	1 482 585	(272 562)	1 210 023
Landfill sites	1 751 936	(494 152)	1 257 784	1 751 936	(393 119)	1 358 817
Leased assets	1 053 114	(1 053 114)	-	1 053 114	(970 324)	82 790
Other assets	3 355 409	(2 204 689)	1 150 720	3 345 208	(1 867 177)	1 478 031
Work in progress	18 684 767	-	18 684 767	11 258 166	-	11 258 166
Total	435 687 588	(195 647 732)	240 039 856	428 250 786	(183 424 829)	244 825 957

Ikwezi Local Municipality

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	20 341 555	-	-	-	20 341 555
Infrastructure	163 191 524	-	(9 115 447)	-	154 076 077
Buildings	45 905 051	-	(2 520 807)	-	43 384 244
Motor vehicles	1 210 023	-	(50 493)	(14 821)	1 144 709
Landfill sites	1 358 817	-	(101 033)	-	1 257 784
Leased assets	82 790	-	(82 790)	-	-
Other assets	1 478 031	10 201	(332 581)	(4 931)	1 150 720
Work in progress	11 258 166	7 426 601	-	-	18 684 767
	244 825 957	7 436 802	(12 203 151)	(19 752)	240 039 856

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Total
Land	20 341 555	-	-	-	20 341 555
Infrastructure	164 130 059	7 968 657	-	(8 907 192)	163 191 524
Buildings	48 221 161	204 179	-	(2 520 289)	45 905 051
Motor vehicles	1 260 516	-	-	(50 493)	1 210 023
Landfill sites	1 459 849	-	-	(101 032)	1 358 817
Leased assets	293 413	-	-	(210 623)	82 790
Other assets	1 722 534	79 270	-	(323 773)	1 478 031
Work in progress	10 445 290	8 985 712	(8 172 836)	-	11 258 166
	247 874 377	17 237 818	(8 172 836)	(12 113 402)	244 825 957

The acquisition of property, plant and equipment will be financed through grant income.

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

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	501 205	(378 185)	123 020	495 090	(304 404)	190 686

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	190 686	6 115	(73 781)	123 020

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Figures in Rand	2016	Restated 2015
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9. Intangible assets (continued)

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	263 489	(72 803)	190 686

10. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	1 221 983	-	1 221 983	1 221 983	-	1 221 983

Reconciliation of heritage assets 2016

	Opening balance	Total
Historical buildings	1 221 983	1 221 983

Reconciliation of heritage assets 2015

	Opening balance	Total
Historical buildings	1 221 983	1 221 983

The municipality owns the following heritage assets:

The Klipplaat monument, in honour of service men killed during the First World War.

The Great War Memorial monument, situated in Jansenville, in honour of service men killed during the First World War.

11. Repayment - National Revenue Fund

Designated at fair value

Public Works - EPWP	-	437 315
Integrated National Electrification Grant	-	2 948 808
Municipal Infrastructure Grant	-	1 543 480
Municipal Systems Infrastructure Grant	-	375 638
	-	5 305 241

The Municipality failed to spend their entire DORA allocation in the 2012/2013 financial year and as a result National and Provincial Treasury are requiring that the municipality repay the unspent amount of R5,305,241, the amount has been fully repaid.

An additional amount of R2,370,000 was withheld from the November 2015 equitable share.

Non-current liabilities

At amortised cost	(2 370 000)	205 241
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Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
Current liabilities		
At amortised cost	-	4 100 000
12. Finance lease obligation		
Minimum lease payments due		
- within one year	-	143 077
	-	143 077
less: future finance charges	-	(24 208)
Present value of minimum lease payments	-	118 869
Present value of minimum lease payments due		
- within one year	-	118 869
13. Payables from exchange transactions		
Trade payables	10 008 632	12 462 226
Salaries control	-	1 214 460
Deposits received	3 229 426	1 214 315
Auditor General	6 566 433	5 848 837
Eskom - Departmental use and Free Basic Services	171 287	60 405
Eskom bulk purchases	15 275 710	10 188 170
E Natis	1 611 171	2 626 243
Income received in advance	63 233	130 667
Debtors with credit balances	439 760	675 958
	37 365 652	34 421 281
14. VAT payable		
VAT payable	-	619 311
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	8 149 160	4 159 498
Public Works - EPWP	-	(214 887)
Finance Management Grant	-	50 214
	8 149 160	3 994 825
Other conditional grants		
Dan Sandi Sewerage Grant	-	70 000
Industrial Development Corporation	-	500 000
LED Special Grants Funding	-	1 924 539
Spatial Development Framework Grant	-	74 558
ACIP Sanitation	-	93 779
ACIP Water Meters	-	(1 336 570)
	-	1 326 306
	8 149 160	5 321 131

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
15. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	5 321 131	1 231 696
Additions during the year	48 166 560	47 097 590
Income recognition during the year	(45 338 531)	(43 008 155)
	8 149 160	5 321 131

See note 19 for reconciliation of grants from National/Provincial Government.

16. Provisions

Reconciliation of provisions - 2016

Note	Opening Balance	Additions	Total
Rehabilitation of landfill	1 727 840	167 082	1 894 922
Provision for performance bonuses	405 919	-	405 919
Provision for annual bonuses	327 992	297 744	625 736
	2 461 751	464 826	2 926 577

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Rehabilitation of landfill	1 575 490	152 350	-	1 727 840
Provision for performance bonuses	363 876	405 919	(363 876)	405 919
Provision for annual bonuses	535 182	327 992	(535 182)	327 992
	2 474 548	886 261	(899 058)	2 461 751

Non-current liabilities	1 894 922	1 727 840
Current liabilities	1 031 655	733 911
	2 926 577	2 461 751

Performance Bonuses

Performance bonuses are paid out to senior management and are calculated at up to 14% of the annual salary package.

There were no provisions made in the current year

Bonuses

Bonuses are paid out to all employees (except for senior management) during November each year and are based on a 13th monthly basic salary.

Rehabilitation of landfill

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites are expected to be closed in 2030, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The landfill sites valuation was performed by Bosch Munitech. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
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16. Provisions (continued)

- The sizes of the Jansenville and Steytlerville landfill sites are estimated to be 0.1 Ha each.
- The remaining useful lives of the landfill sites are estimated to be 10.39 years (Jansenville) and 16.36 years (Steytlerville), respectively.
- The CPIX (6.7%, 2013: 5.5%) was used to adjust the cost as it is the only determining factor year on year.
- Where there are no calculated site classifications, an estimate has been assumed for the classification based on local information of waste volumes and leachate. The valuation above assumes a worst case scenario, and assumes the Department of Water Affairs will strictly apply regulations.
- The cost values used are estimates only, based on previous works and escalated to current values.
- All historical and permitting information regarding the landfill sites was provided by the Municipality.

The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.

17. Property rates

Rates received

Property rates	1 789 423	1 722 591
	1 789 423	1 722 591
Property rates - penalties imposed	279 307	327 859
	2 068 730	2 050 450

Valuations

Residential	63 585 200	63 585 200
Commercial	15 792 500	15 792 500
State	57 935 200	57 935 200
Agricultural	877 914 300	877 914 300
Vacant	-	-
Indigent	664 100	664 100
Places of worship	3 537 300	3 537 300
	1 019 428 600	1 019 428 600

The following general rates were applied during the 2015/2016 and 2014/2015 years respectively to property valuations to determine the assessment rates:

1.619 c/R
1.984 c/R
2.381 c/R

18. Service charges

Sale of electricity	5 043 795	5 867 082
Sale of water	892 308	1 358 607
Sewerage charges	1 671 546	1 562 404
Refuse removal	1 433 937	1 367 117
	9 041 586	10 155 210

Ikwezi Local Municipality

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Figures in Rand	2016	Restated 2015
19. Government grants and subsidies		
Operating grants		
Equitable share	20 720 000	18 211 000
Finance Management Grant	1 875 000	1 709 418
Provincial allocation	3 275 000	308 000
Public Works - EPWP	1 096 597	1 444 548
SA Sport for Change	-	204 179
Municipal Systems Improvement Grant	930 000	852 145
EC Department of Public Works	1 374 856	-
Other Grants and Subsidies	5 663 143	8 985 713
Municipal Support Grant	1 485 573	-
	36 420 169	31 715 003
Capital grants		
Department of Water	5 076 024	5 238 316
Municipal Infrastructure grant	3 842 338	6 054 836
	8 918 362	11 293 152
	45 338 531	43 008 155
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Finance Management grant		
Balance unspent at beginning of year	50 214	50 214
Current-year receipts	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 875 000)	(1 800 000)
Other	(50 214)	-
	-	50 214
Municipal Systems Improvement grant		
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-
Municipal Infrastructure grant		
Balance unspent at beginning of year	4 159 498	-
Current-year receipts	7 832 000	11 002 000
Conditions met - transferred to revenue	(3 842 338)	(6 842 502)
	8 149 160	4 159 498
Conditions still to be met - remain liabilities (see note 15).		
Public Works - EPWP		
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

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Figures in Rand	2016	Restated 2015
19. Government grants and subsidies (continued)		
Local Economic Development		
Balance unspent at beginning of year	1 924 539	1 924 539
Conditions met - transferred to revenue	(1 924 539)	-
	-	1 924 539
Spatial Development Framework		
Balance unspent at beginning of year	74 558	74 558
Conditions met - transferred to revenue	(74 558)	-
	-	74 558
Dan Sandi Sewerage grant		
Balance unspent at beginning of year	70 000	70 000
Conditions met - transferred to revenue	(70 000)	-
	-	70 000
Industrial Development Corporation		
Balance unspent at beginning of year	500 000	500 000
Conditions met - transferred to revenue	(500 000)	-
	-	500 000
ACIP Sanitation Grant		
Balance unspent at beginning of year	93 779	-
Current-year receipts	3 349 397	3 453 889
Conditions met - transferred to revenue	(3 443 176)	(3 360 110)
	-	93 779
ACIP Water Grant		
Balance unspent at beginning of year	(1 336 570)	-
Current-year receipts	2 969 388	1 275 000
Conditions met - transferred to revenue	(1 632 818)	(2 611 570)
	-	(1 336 570)
20. Revenue		
Property rates	1 789 423	1 722 591
Service charges	9 041 586	10 155 210
Government grants and subsidies	45 338 531	43 008 155
Interest received - internal	1 123 911	1 316 022
Licences and permits	70 264	109 451
Rental of facilities and equipment	219 532	86 240
Other income	1 360 707	2 169 266
Interest received - external	92 790	43 767
Property rates - penalties imposed	279 307	327 859
	59 316 051	58 938 561

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Figures in Rand	2016	Restated 2015
20. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	9 041 586	10 155 210
Rental of facilities and equipment	219 532	86 240
Interest received - internal	1 123 911	1 316 022
Licences and permits	70 264	109 451
Other income	1 360 707	2 169 266
Interest received - external	92 790	43 767
	11 908 790	13 879 956
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	1 789 423	1 722 591
Property rates - penalties imposed	279 307	327 859
Government grants and subsidies	45 338 531	43 008 155
	47 407 261	45 058 605
21. Personnel		
Basic salaries and wages	14 924 504	15 321 493
Medical aid - company contributions	515 082	666 838
UIF	113 404	127 654
SDL	145 597	147 332
Leave pay	(587 584)	1 212 649
Provision for bonuses	297 744	(165 147)
Travel, motor car, accommodation, subsistence and other allowances	765 256	694 489
Overtime payments	735 186	715 547
Long-service awards	73 622	26 225
Acting allowances	183 548	31 343
Housing benefits and allowances	21 916	13 261
Annual Bonus	622 892	684 257
Pension fund contributions	1 345 593	1 321 913
Bargaining council	6 813	6 511
Provision for post employment benefits	17 105	673 000
	19 180 678	21 477 365
Remuneration of municipal manager		
Annual Remuneration	596 706	795 608
Car Allowance	100 800	-
Performance Bonuses	-	134 400
Contributions to UIF, Medical and Pension Funds	-	10 845
	697 506	940 853

The municipal manager, Mr T Gutas, has been suspended for the whole year with Mrs Mpahlwa, Director: Strategic Services, acting in his place.

Ikwezi Local Municipality

Annual Financial Statements for the year ended 30 June 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
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21. Personnel (continued)

Remuneration of chief finance officer

Annual Remuneration	168 382	673 527
Car Allowance	164 289	-
Performance Bonuses	-	120 000
Contributions to UIF, Medical and Pension Funds	-	1 785
	332 671	795 312

The chief financial officer was released from her position in the current financial year.

Remuneration of the Manager - Strategic Services

Annual Remuneration	701 300	673 527
Car Allowance	143 145	21 453
Performance Bonuses	-	120 000
Contributions to UIF, Medical and Pension Funds	-	9 694
	844 445	824 674

Remuneration of Manager - Technical Services

Annual Remuneration	-	336 263
Car Allowance	-	16 099
Performance Bonuses	-	62 500
Contributions to UIF, Medical and Pension Funds	-	4 926
	-	419 788

Technical services director position is vacant.

22. Remuneration of councillors

Executive Mayor	397 055	359 598
Councillors	1 480 630	1 233 750
	1 877 685	1 593 348

In-kind benefits

The municipality received assistance from the Sarah Baartman District Municipality. The assistance provided by Sarah Baartman District Municipality was to provide accounting support services.

Ikwezi Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015	
22. Remuneration of councillors (continued)			
Councillors' Remuneration			
	2016		
Councillor	Remuneration	Allowances	Total
SA Mngwevu (Mayor)	282 140	114 915	397 055
K Hendricks	197 498	86 701	284 199
M Bonaparte	153 895	72 166	226 061
L Ntame	197 498	86 701	284 199
A Mboneni	159 887	74 164	234 051
J Lewis	101 419	47 718	149 137
BW Seekooi	153 895	72 166	226 061
SA Alberts	52 476	24 448	76 924
	1 298 708	578 979	1 877 687
	2015		
Councillor	Remuneration	Allowances	Total
SA Mngwevu (Mayor)	261 299	98 299	359 598
K Hendricks	144 792	60 833	205 625
M Bonaparte	144 792	60 833	205 625
L Ntame	144 792	60 833	205 625
A Mboneni	144 792	60 833	205 625
J Lewis	144 792	60 833	205 625
BW Seekooi	144 792	60 833	205 625
	1 130 051	463 297	1 593 348
23. Debt impairment			
Contributions to debt impairment provision	4 238 835	6 152 625	
24. Depreciation and amortisation			
Property, plant and equipment	12 203 152	12 113 404	
Intangible assets	73 780	72 805	
	12 276 932	12 186 209	
25. Finance costs			
Finance leases	4 935	27 613	
Fair value adjustments on payables	167 082	152 350	
Trade and other payables	2 702 821	2 005 798	
	2 874 838	2 185 761	

Ikwezi Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
26. Repairs and maintenance		
Buildings	2 218	166 064
Computers	-	111
Network	62 250	136 142
Street	-	3 926
Tools and equipment	-	862
Vehicles and plant	14 982	171 430
Water reticulation	-	29 211
Water boreholes	35 851	43 026
	115 301	550 772
27. Bulk purchases		
Electricity	7 758 602	5 932 966
28. General expenses		
Audit committee	-	6 373
Advertising	23 500	71 695
Audit fee - internal	20 000	187 691
Auditors remuneration	1 317 648	126 885
Bank charges	222 622	257 190
Chemicals	16 117	-
Capital expenditure	1 895 772	-
Departmental electricity	731 702	345 747
Entertainment	91 530	73 440
Free basic services	1 870 571	1 966 814
Sundry expenses	1 831	47 127
Fuel and oil	247 991	493 771
Insurance	87 204	548 733
Internet subscriptions	32 028	68 572
Lease rentals	43 418 907	306 159
Professional fees	1 646 390	1 846 705
Legal expenses	441 375	598 638
Chemicals	420 413	337 551
Subscriptions	5 907	14 419
Motor vehicle expenses - licencing	498 578	1 735 616
Other projects	385 741	-
MSIG	1 213 213	3 701 608
Postage and courier	1 058	5 065
Printing and stationery	58 617	260 125
Special projects	500	79 998
Protective clothing	-	134 825
Pauper burials	6 000	12 000
Telephone and fax	1 121 055	644 464
Tourism development	2 990	610 000
Training	236 675	260 522
Subsistence and travel	591 296	1 492 110
Gifts	-	38 682
EPWP	327 480	67 920
	13 934 711	16 340 445

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
29. Prior period errors		
The correction of error relating to the opening retained income balance at 01 July 2014 is due to the following adjustment:		
Investment property		(6 142 350)
Property, plant and equipment		140 277 692
Intangible assets		180 591
Heritage assets		1 221 983
Provisions		2 936 240
		138 474 156

The adjustment to Property, plant and equipment, Investment Property, Intangible assets and Heritage assets relates to the restatement of assets due to the total review of the asset register.

The adjustment provisions was due to the revision of landfill sites.

The adjustments in the statement of performance listed below relate to the adjustments made to non-current assets.

Further to the above the following balances were adjusted as follows as at the 2015 reporting date:

Statement of financial position	Restated 2015 Reported 2015	
Property, plant and equipment	244 825 957	102 126 749
Investment property	37 495 550	43 637 900
Intangible assets	190 686	12 960
Heritage assets	1 221 983	-
Provisions	(1 727 840)	(4 511 730)
Unspent conditional grants	(5 321 131)	(4 046 131)
Opening Accumulated Surplus or Deficit	(235 747 356)	(96 281 903)
	40 937 849	40 937 845

Statement of Financial Performance

Expenses		
Depreciation expense	12 186 208	4 260 482
Finance costs	179 963	27 613
Repairs and maintenance	550 772	555 164
General expenses	18 346 243	18 425 513
Revenue		
Government grants and subsidies	(43 008 155)	(34 022 442)
	(11 744 969)	(10 753 670)

Ikwezi Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
30. Cash generated from operations		
Deficit	(2 610 404)	(7 613 545)
Adjustments for:		
Depreciation and amortisation	12 276 931	12 186 208
Loss on sale of assets and liabilities	(350 877)	-
Impairment deficit	19 751	-
Debt impairment	4 238 835	6 152 625
Movements in provisions	464 826	(12 797)
VAT receivable	(1 523 215)	-
Changes in working capital:		
Inventories	-	-
Other receivables	34 042	155 353
Consumer debtors	(2 488 022)	(5 205 428)
Payables from exchange transactions	2 944 373	14 527 728
VAT	(619 311)	(575 250)
Unspent conditional grants and receipts	2 828 029	2 752 865
	15 214 958	22 367 759

31. Auditors' remuneration

Fees	1 317 648	126 885
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32. Related parties

Relationships	
Mayor	SA Mngwevu
Councillor	Cllr K Hendricks
Councillor	Cllr M Bonaparte
Councillor	Cllr L Ntame
Councillor	Cllr A Mboneni
Councillor	Cllr J Lewis
Councillor	Cllr BW Seekeoi
Municipal Manager (Suspended)	LT Gutas
Director - Strategic Services	MP Mpahlwa
District Municipality that Ikwezi Municipality forms part of	Sarah Baartman District Municipality

Refer to note 22 for a breakdown of councillors' remuneration.

Refer to note 21 for a breakdown of amounts paid to section 57 managers.

33. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the finance department, with assistance of the operating divisions, under policies approved by the accounting officer.

Ikwezi Local Municipality

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2016

Restated
2015

33. Risk management (continued)

Liquidity risk

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, projected grant receipts and cash forecasting.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. 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.

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

Financial instrument	2016	2015
Call deposit	1 277 460	10 760
Trade and other receivables	1 239 536	2 711 702
Other receivables	477 825	511 867

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. Interest rate risk is managed by investing any surplus funds into high yield investments. The resultant interest earned is likely to offset interest paid, as both are linked to prime rates.

34. Events after the reporting date

The municipality has been amalgamated into the new Dr Beyers Naude municipality as from the 7th August 2016.

35. Unauthorised expenditure

Opneing balance	98 281 051	98 281 051
Add: Unauthorised current year	13 400 486	-
	111 681 537	98 281 051

No criminal or disciplinary steps have been taken as a consequence of above expenditure.

36. Fruitless and wasteful expenditure

Openig balance	583 336	583 336
Add: Fruitless and wasteful expenditure - current year	2 702 821	-
	3 286 157	583 336

No criminal or disciplinary steps have been taken as a consequence of above expenditure.

Schedule of fruitless and wasteful expenditure incurred in the current year:

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Figures in Rand	2016	Restated 2015
36. Fruitless and wasteful expenditure (continued)		
Category	2016	2015
Interest on overdue accounts	2 702 821	-
37. Irregular expenditure		
Opening balance	1 923 741	1 923 741
38. Deviation from supply chain management regulations		
Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.		
Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.		
Goods and services to the value of RNIL (2015: RNIL) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.		
39. Contingencies		
Former employee vs Ikwezi Local Municipality / others		
The matter has not been resolved and the claim against Council is estimated at R650,000.		
M. Blouw		
The municipality was being sued by a former employee, M. Blouw. The matter has been to arbitration and was settled subsequent to year end. Mr Blouw was awarded an amount of R176,777.		
Mr T. Gutas vs Ikwezi Local Municipality		
The potential claim is twelve months salary which amounts to R857,391.		
Jansenville Taxi Association		
Jansenville Taxi Association has taken the municipality to court over the eviction of M. Blouw. The value of the potential claim has not yet been determined. The claim is over ownership of property.		
Fleet Africa vs Ikwezi Local Municipality		
A settlement has been reached but the legal cost is still to be determined. An arrangement is in place to pay for the goods in three payments. The final payment will be made in November 2014.		
40. Material losses		
During the 2016 financial year the municipality was unable to provide the distribution losses relating to electricity (2015: 37.6%)		
41. Pension and medical aid deductions		
Current year payroll deductions and Council Contributions	1 784 149	2 676 610
Amount paid - Current year	(1 509 714)	(1 185 486)
	274 435	1 491 124

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Figures in Rand	2016	Restated 2015
42. PAYE, SDL and UIF		
Current year payroll deductions and Council Contributions	2 133 193	2 425 542
Amount paid - Current year	(1 732 105)	(1 783 305)
	401 088	642 237
43. Finance lease receivables		
Gross investment in the lease due		
- within one year	-	37 719
- in second to fifth year inclusive	-	1 894
	-	39 613
Present value of minimum lease payments due		
- within one year	-	37 719
- in second to fifth year inclusive	-	1 894
	-	39 613
44. Employee benefit obligations		
44.1 Post employment medical benefit		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	3 122 000	3 122 000
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	3 696 000	3 122 000
Net expense recognised in the statement of financial performance	-	574 000
	3 696 000	3 696 000
Net expense recognised in the statement of financial performance		
Current service cost	-	80 000
Interest cost	-	228 000
Actuarial (gains) losses	-	374 000
Assets not recognised	-	(108 000)
	-	574 000
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	- %	8.94 %
Expected rate of return on assets	- %	0.82 %
Expected rate of return on reimbursement rights	- %	7.05 %
Medical cost trend rates	- %	8.05 %

The PA 90-2 post-retirement mortality table was used

Number of Continuation pensioners - 4

Ikwezi Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
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44. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	-	425 000
Effect on defined benefit obligation	-	3 240 000

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

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	-	3 122 000	-	2 641 000	2 239 000
Experience adjustments on plan	-	(374 000)	-	219 000	373 000

Defined benefit obligation

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2016 by ZAQ Consultants and Actuaries using the Projected Unit Credit Method.

The valuation of this liability considers all employees, retired employees and their dependants who participate in the medical aid arrangements and are entitled to a post-employment medical aid subsidy.

The estimated contributions to be paid in the next financial year:

The total economic entity contribution to such schemes	-	124 000
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44.2 Long service awards

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	874 172	874 172
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	959 344	874 172
Benefits paid	-	(13 828)
Net expense recognised in the statement of financial performance	-	99 000
	959 344	959 344

Net expense recognised in the statement of financial performance

Current service cost	-	95 000
Interest cost	-	62 000
Actuarial (gains) losses	-	(10 000)
Assets not recognised	-	(48 000)
	-	99 000

Ikwezi Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
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44. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	- %	7.96 %
Expected rate of return on assets	- %	0.59 %
Expected rate of return on reimbursement rights	- %	6.33 %
Expected increase in salaries	- %	7.33 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	-	205 000
Effect on defined benefit obligation	-	945 000

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

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	-	874 172	-	972 000	688 000
Experience adjustments on plan	-	(10 000)	-	100 000	101 000

Defined benefit obligation

The obligation in respect of the long service awards is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2015 by ZAQ Consultants and Actuaries using the Projected Unit Credit Method.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days accumulative leave
- After 10 Continuous Years of Service - 3% of Basic Annual Salary and 10 days accumulative leave
- After 15 Continuous Years of Service - 4% of Basic Annual Salary and 15 days accumulative leave
- After 20 Continuous Years of Service - 5% of Basic Annual Salary and 15 days accumulative leave
- After 25 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 30 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 35 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 40 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 45 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave

The estimated contributions for the next financial year:.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	Restated 2015
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44. Employee benefit obligations (continued)

The total economic entity contribution to such schemes	-	107 000
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45. Going concern

The Ikwezi Local Municipality was amalgamated into the Dr Beyers Naude Municipality on the 7th August 2016.

46. Budget differences

Changes from the approved budget to the final budget

During the current financial year the municipality had no management structure this including a municipal manager and chief financial officer. Therefore no budget control was undertaken.